Spain's verdict
Still comfortable with the left
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The crumbling empire goes back to basics
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Survey, Section III

FINANCIAL TIMES

Europe's Business Newspaper TUESDAY JUNE 8 1993 D8523A

Sweden urges sale of banks to foreign interests

Sweden has urged overseas institutions to purchase Swedish banks, on the grounds that foreign ownership would be preferable to state control. Two of Sweden's loss-making banks have been taken over by the *government and three more – including* Skandinaviska Enskilda – have applied for state support. None of Sweden's big banks is owned or controlled by overseas institutions. Page 18

Thatcher pushes Maastricht poll: Baroness Thatcher reopened deep Tory party wounds over Europe by launching a fresh campaign to force a referendum on the Maastricht treaty. Page 18

Solvay, Belgian chemicals group, warned it would record a loss for the first half of 1993 because of overcapacity, recession and alleged unfair competition in the European plastics sector. Page 19

WHO urges $2.5bn Aids spending: The World Health Organisation wants $2.5bn to be spent each year on Aids prevention in developing countries, an investment which it believes could cut the number of new adult infections by half. Page 18

Attali fights his corner on EBRD reforms:

Jacques Attali, beleaguered president of the European Bank for Reconstruction and Development, proved his determination to retain his job by indicating that restructuring of the bank was imminent. Mr Attali refused to confirm that Ernie Stern, a managing director of the World Bank, was being considered for a senior role within the EBRD. Page 3

Battle for France's OCP hots up: The battle for Office Commercial Pharmaceutique intensified when Gehe, German drug distributor, raised its offer for the French drug wholesaler to 16.8 per cent *above a French-US bid. Page 19*

US Nafta plan draws fire: Clinton administration proposals designed to woo labour support for the North American Free Trade Agreement are instead provoking Republican and Democratic wrath. Page 5

Ukraine arms treaty pledge: Ukrainian president Leonid Kravchuk assured the US that Ukraine would approve two critical arms treaties, but opposition within parliament persists. Page 3

Kenya suffers economic setback: Kenya's economy grew by a meagre 0.4 per cent in 1992, its worst performance since independence 30 years ago. Page 4

Fondiaria, Italian insurance group, which posted consolidated losses of about L580bn ($392m) last year, is believed to have run up debts of about L3,000bn to finance foreign insurance expansion and domestic diversification. Page 20

Two Somalis shot dead: Pakistani UN troops shot dead at least two Somali gunmen after their Mogadishu base was attacked. Earlier, warlord General Mohamad Farah Aideed had released five Pakistani soldiers. Picture, Page 4

Babbitt favoured for Supreme Court: Bruce Babbitt, secretary of the interior, has emerged as favourite to fill the vacancy at the US Supreme Court. Page 4

Key town falls in Azerbaijan: Rebel troops in Azerbaijan were reported to have taken control of Gyandzha, an oil-producing town. Four top government officials were captured and the red flag was hoisted above several buildings. Page 3

Bolivians elect president: Gonzalo Sánchez de Lozada, a US-raised mineowner, looks likely to become president of Bolivia after the most peaceful elections in the country's history. Page 4

UK accountants suffer bleak year: *Five* of the UK's "Big Six" accounting firms suffered a fall in fee income last year, with only Andersen increasing its income. Page 19

Woody Allen loses custody battle: Actress Mia Farrow, engaged in a long custody fight with estranged lover Woody Allen, was awarded custody of the couple's two adopted children and one natural child.

Australian cricketers beat England: The first Cornhill Test match, played in Manchester, was won by Australia by 179 runs after England, chasing 512, were all out for 332.

■ STOCK MARKET INDICES

FT-SE 100:	2844.8	(+14.9)
Yield	4.05	
FT-SE Eurotrack 100	1167.78	(+7.83)
FT-A All-Share	1406.7	(+0.5%)
Nikkei	20,844.19	(-38.05)
New York: lunchtime		
Dow Jones Ind Ave	3542.10	(-3.04)
S&P Composite	449.41	(-0.65)

■ US LUNCHTIME RATES

Federal Funds:	3¼%
3-mo Treas Bills: Yld	3.167%
Long Bond	102 15/16
Yield	6.888%

■ LONDON MONEY

3-mo Interbank	6%	(5 15/16%)
Liffe long gilt future:	Jun 104 11/16	(Jun 104½)

■ NORTH SEA OIL (Argus)

Brent 15-day (July)	$18.035	(18.40)

■ Gold

New York Comex (Aug)	$375.7	(378.5)
London	$	(374.60)

■ STERLING

New York lunchtime:		
$	1.521	
London:		
$	1.523	(1.518)
DM	2.465	(2.4625)
FFr	8.3075	(8.3025)
SFr	2.215	(Same)
Y	163.5	(Same)
£ Index	79.2	(79.4)

■ DOLLAR

New York lunchtime:		
DM	1.6195	
FFr	5.45825	
SFr	1.455	
Y	107.1	
London:		
DM	1.619	(1.6225)
FFr	5.455	(5.47)
SFr	1.4535	(1.4595)
Y	107.3	(107.75)
$ Index	63.9	(64.0)

Tokyo close Y 107.47

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lw25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45
Croatia	HRD5700	India	Rs40	Nigeria	Naira45	Slovenia	SLT220
Cyprus	C£1.00	Israel	Shk5.80	Norway	NKr16.00	Spain	Pta200
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000
						UAE	Dh11.00

Poll results add pressure for Italian electoral reform

By Robert Graham in Rome

THE outcome of municipal elections in Italy at the weekend places renewed pressure on parliament to reach a quick agreement on new electoral laws for early fresh elections. It puts the five-week-old government of prime minister Carlo Azeglio Ciampi in an even more anomalous position regarding its parliamentary support.

The election results confirmed the dramatic shake-up in the country's political geography as a result of the corruption scandals and the discrediting of the traditional parties.

The populist Lombard League of Mr Umberto Bossi established itself as the dominant force in the rich industrial north of the country. Everywhere, voters shied away both from the ruling parties and from what has been the centre ground.

The only groups, apart from the League, to increase their vote over that of general elections in April 1992 were those with more radical and aggressive messages such as the Network (La Rete), the Sicily-based clean-government movement, and the hardline members of the former Communist party, Reconstructed Communism.

However, the bulk of the former communists, recycled in the party of the Democratic Left (PDS), managed to hold their vote well, although tainted by corruption, and remain in control of the old "red belt" in central Italy.

The four-party coalition on whom Mr Ciampi's predominantly technocratic government relies still provides a majority in both houses. But if the results of the election on Sunday are projected in a national vote, the collapse in support for the Christian Democrats, Socialists, Social Democrats and Liberals is such that between them they would muster less than 20 per cent.

The Socialists in the previous municipal elections of 1990 obtained more than 17 per cent of the vote, but their support slipped to virtual annihilation with only 2 per cent. The two minor coalition partners are close to oblivion, while the Christian Democrats slipped back to 17 per cent in the centre and north of the country.

That still leaves them the largest voted-for party, with a bigger share of the vote in the south, but there is no evidence that the Christian Democrats' decline has halted.

The elections involved a representative cross-section of the country, covering nearly one in four of the electorate, with almost 11m voters in 1,092 towns, six provinces and the region of Friuli-Venezia-Giulia. Laws approved in March introduced a direct vote for the mayor in towns of more than 15,000 and allowed the leading parties or coalitions a dominant say in forming new municipal administrations. To ensure a clear-cut result, the laws allowed for a second-round run-off between the two leading candidates in the mayoral race.

Since only two mayors achieved the

Continued on Page 18
World stock markets, Page 38

Peseta rallies in ERM and foreign exchange markets after Socialist election victory

González may aim for minority government

By Peter Bruce in Madrid

PRIME MINISTER Felipe González of Spain yesterday celebrated his fourth successive general election victory by preparing a new government which he has promised would contain many new faces.

The new administration could also include the conservative Catalan CiU as a coalition partner, although Mr González might try first to form a minority government.

The peseta rallied powerfully inside the European exchange rate mechanism yesterday in the wake of Mr González's victory.

Foreign exchange markets greeted the surprisingly comfortable victory by Mr González and his Socialist party by lifting the peseta. In London, it finished at Pta76.84 against the D-Mark after closing on Friday at Pta78.27, and remained in second place in the ERM grid.

The Madrid stock market took a gloomier view of the Socialist victory and the general index fell 4.4 points in moderate trading.

The markets had assumed that a widely predicted victory by the conservative People's Party, led by Mr José María Aznar, would have resulted in early cuts in interest rates to revive the flagging Spanish economy.

Mr González, backed by the Bank of Spain, is likely to be much more cautious about lowering rates and is likely to concentrate in the next few weeks on introducing new fiscal austerity measures and a tough 1994 budget to defend the peseta against attack by speculators sceptical of *Socialist determination to cut* public spending and budget deficits in the middle of a recession.

In Sunday's election, the Socialists won 38.68 per cent of the vote and 159 seats, but lost their overall parliamentary majority. Mr González had held 175 seats in the 350-seat parliament since the last election in 1989.

The PP won 141 seats, with the PP vote increasing from 25.9 per cent (107 seats in 1989) to 34.81 per cent. *There were nearly 3m* voters new to the party.

Socialist leaders were suggesting yesterday that voters had made it clear that they wanted the government to change – to tackle corruption and take measures against the recession.

Mr Carlos Solchaga, the finance minister, said: "There is no doubt that the result in part was a vote of confidence, but a critical one, which means we have to make some changes."

There were no immediate clues as to as to who Mr González might invite into a coalition if he were to form one.

The most likely partner would be the Convergencia i Unio (CiU), which governs Catalonia. With the CiU's 17 seats, the Socialists would have an overall majority in parliament.

The Catalans are conservative and fiscally disciplined and the markets would view an alliance with them favourably.

But Mr González might find it easier to persuade his party to support potentially unpopular policies if he initially formed a minority government, rather than depending on a conservative coalition partner.

Some analysts were yesterday expressing doubts that the Socialists could attend to the growing public sector deficit – 4.4 per cent of GDP and thought by the PP to be closer to 6 per cent – with the necessary urgency now that they *had lost their overall parliamentary* majority.

By the same token, many analysts also doubted that the Socialists would tackle much-needed reforms in the labour market.

Sweet smell of success: Spanish prime minister Felipe González accepts the congratulations of supporters on the day after his election victory

Brussels warns on pace of recovery

By Lionel Barber in Luxembourg

THE EUROPEAN Commission yesterday delivered a grim warning that economic recovery in the EC is unlikely before the second half of 1994.

The poor outlook for growth means unemployment will top 18m this year and could top 20m in 1994, Mr Henning Christophersen, economics commissioner, told EC finance ministers in Luxembourg.

Mr Kenneth Clarke, the new UK chancellor of the exchequer (finance minister) acknowledged that the weakness in the European economy is taking the edge off UK recovery and called for a "spirit of co-operation" among his EC partners.

On his debut in the Ecofin council, Mr Clarke said Europe remained the most important export market for British goods. "Getting the European economy going again is very important for us all."

The Commission forecasts that the UK economy will grow by 1.7 per cent in 1993, compared with an earlier estimate of 1.3 per cent. This is faster than its main

Continued on Page 18

Klöckner creditors approve DM2.7bn debt relief scheme

By Ariane Genillard in Bonn

KLOECKNER-WERKE, the ailing German steel producer, won overwhelming approval from its creditors for a debt relief scheme yesterday, paving the way for the company to write off nearly half its DM2.7bn ($1.68bn) debt.

Creditors, dominated by the top German banks, will receive between 40 and 60 per cent of their claims. Small creditors, owed no more than DM10,000, will be fully reimbursed.

The approval leaves Klöckner free to reopen negotiations for the sale of a significant share of its steel assets, the company said.

The company is considering selling at least a 50 per cent stake to an outsider, Mr Hans Christoph von Rohr, Klöckner's chairman, told the Frankfurter Allgemeine newspaper.

The sale of Klöckner-Edelstahl, the special steel division, was announced this year pending the success of the debt-relief scheme. The subsidiary is to be sold for a symbolic DM2 to Mr Jürgen Grossmann, its chairman until February 15. Drüker, a Frankfurt-based consultancy company, will acquire 25 per cent of the shares.

Thyssen and Krupp-Hoesch, Germany's two largest steelmakers, also announced last month that they would lead a European consortium of steel producers to bid for Klöckner's cold-rolling mill, the most profitable part of the company.

Mr von Rohr said he would not sell such an important asset without also negotiating the sale of a part of Klöckner's hot-rolling mill, an area of the European industry that suffers from severe overcapacity.

Any move by Klöckner to sell part its core steel assets will be watched with some trepidation by other German steelmakers which have expressed concern at the prospect of the company's being able to compete more effectively.

Under pressure from other producers, the European Commission insisted on significant capacity cuts at Klöckner before writing off part of its DM175m loan.

Under its agreement with the Commission, signed last Friday, Klöckner will reduce its pig-iron capacity by 33 per cent to 2.4m tonnes per year. The company's crude steel production will fall by 20 per cent to 2.8m while its hot-rolling mill capacity will decrease by 12 per cent to 3.7m tonnes.

The company plans to demolish one of its two blast furnaces in Bremen.

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SECTION III

Tuesday June 8 1993

The worst may be over

Defence cuts and the slump in civil aviation have inflicted a severe downturn on the industry over the past two years. Now there are signs of slow recovery, writes Paul Betts, Aerospace Correspondent

Paris Air Show take-off for Airbus Industrie's new A340, A330 and A321 fleet

The aerospace industry would probably have preferred to gather in Lourdes rather than Paris this week for the world's biggest airshow.

Barring a miracle, the industry, crippled by the worst cyclical downturn in its postwar history, still faces a few more years of heavy turbulence.

But there are now signs that the worst is perhaps over. With the recent rescue by General Electric of the US of GPA, the world's biggest aircraft leasing company, which has been mired in a growing financial crisis over the past 12 months, the industry believes it has probably seen the end of the bad news.

"The entire industry has undergone open heart surgery and is now in intensive care waiting to recover slowly," says a senior executive of the European Airbus consortium.

Aerospace companies and airlines have had to adapt to three years of brutal recession – which unlike previous slumps has combined a sharp fall in activity in both the civil and the military sides of the business – by cutting production, restructuring and reducing staff on a huge scale, and intensifying their efforts to collaborate with other groups in mergers, partnerships and other strategic alliances.

The traditional optimism of the industry has been replaced by a new sense of realism. Although the bottom has probably been reached in the current cycle, no one is yet prepared to forecast when the recovery will gather steam. The best estimates are late 1994 or early 1995. But even when the market does pick up again, it is unlikely to roar ahead as in previous cycles.

Airlines, which have lost more than $10bn in the past three years, are still struggling to return to the black. Fierce fare wars, which reflect the continuing overcapacity in the market at a time of increasing liberalisation, will keep airline balance sheets under pressure.

With no alternative but to reduce their overall costs, airlines have had to cancel or defer orders for new aircraft placed during the unprecedented buying binge of the late 1980s. In turn, manufacturers have had to accommodate these cancellations and deferrals by cutting production sharply.

Boeing, the world's largest commercial aircraft manufacturer, is reducing production by as much as a third from 32 to 21 airliners a month by 1994. Both Airbus and McDonnell Douglas have also been cutting output. Total deliveries of new airliners are now expected to drop to around 500 aircraft a year from a peak of 844 in 1991 and 790 last year.

The ripple effect has been felt throughout the industry as suppliers and subcontractors, as well as manufacturers of smaller commuter and regional aircraft and aero-engine makers, have had to bite the bullet.

Growth in air traffic is at last improving again and showing a real increase over 1990, the year before the Gulf conflict. This coupled with economic recession, sent traffic falling in 1991 for the first time since annual records started to be kept in 1929.

But the growth has remained far lower than airlines had expected, leading to overcapacity throughout the industry. The restructurings, expenditure cuts, and aircraft order cancellations and deferrals are likely to start bringing capacity back to balance with travel demand by the end of this year.

The retirement rate of older jets is also expected to bolster demand for new aircraft. Already, about 1,000 aircraft in the world airline fleet are 25 years old – the average life cycle of modern jets. The number is likely to rise to around 2,500 by the beginning of 1995.

A robust recovery in the rate of new aircraft orders, in the short-term is unlikely, however, even though the industry continues to expect strong long-term demand for new aircraft, with deliveries worth more than $800bn forecast over the next 18 years.

Until airline finances improve, the industry will face the challenge of financing the high cost of new equipment and aircraft. Most of the recent cost-cutting measures, according to Moody's, the US rating agency, will only partially offset the industry's weak financial position.

"We don't know what kind of airline industry will emerge from this recession, which has already taken some large airlines out of the game," says Sir Ralph Robins, the chairman of Rolls-Royce, the UK aero-engine manufacturer. He expects little improvement in underlying trading conditions over the next two years.

Manufacturers have also had to maintain a high rate of research and development spending on new products with long lead times in order to secure their longer-term future. With non-recurring research and development costs growing far more rapidly than inflation, manufacturers in all sectors of the civil aerospace industry, including airframes, aero-engines and components, have been scrambling to forge partnerships or, in some cases, combine their operations in mergers to reduce the high risks of new project development and to compete more strongly in an increasingly global and concentrated industry.

Deutsche Aerospace has just taken over control of Fokker, the Dutch aircraft manufacturer, while McDonnell Douglas is seeking investors to acquire up to 49 per cent of its commercial aircraft activities based in Long Beach, California. Bombardier of Canada has absorbed Shorts, the Belfast manufacturer, Learjet, the US corporate aircraft maker, and De Havilland of Canada. British Aerospace has formed a joint company with Taiwan Aerospace for its regional jet business and is now looking for partners to invest in its turbopropeller aircraft activities.

A similar trend of consolidation is now spreading through the defence sector. Since the end of the cold war, the defence market has been shrinking as governments have cut their defence spending and reduced the number of new programmes.

The decline is expected to last several more years. By the turn of the century, the defence business could be half what it was in the 1980s. The consolidation of the industry has seen some companies opting to pull out of some businesses, while others have either sought to merge their activities with partners or expand by acquiring the defence businesses of rival companies.

In the guided weapons sector, for example, the cold war spawned more companies in Europe and in the US making missiles or systems for missiles than could survive in an age of diminishing government defence budgets. This has led to a significant shake-up in the US with Loral's takeover of the former LTV group's guided weapons activities and the sale of General Dynamics' missiles division to Hughes Aircraft, part of General Motors. In Europe, British Aerospace is now considering the merger of its missiles business with those of the French Matra group, while other European manufacturers are also in active merger discussions.

"A process of natural selection is now taking place in the defence sector," says Mr Keith Hodgkinson, aerospace analyst at Shearson Lehman. As the number of big new defence contracts declines, every deal has turned into a matter of "life and death" for many companies, he explains.

Under the circumstances, it is not surprising that trade tensions have continued to simmer on both sides of the Atlantic. Several US companies have decided not to exhibit at Paris because they claim French companies have used air shows to spy on them, a charge rejected with derision by France's aerospace industry.

Although the US has finally reached a compromise with the European Commission on the long-running dispute over aircraft subsidies, accusations have continued to fly between Washington and Brussels over unfair government support for their respective industries.

And while Airbus partners have agreed this year to collaborate with Boeing on joint studies to develop a new generation super jumbo, capable of seating up to 800 [illegible] and marking what could perhaps be the beginning of a new realignment in the world aircraft industry, an atmosphere of suspicion and mutual distrust continues to prevail.

This was eloquently reflected by the response of a senior Airbus executive to suggestions that the Europeans had attempted to spy on Boeing to gain information on its 747-400 jumbo. "It's as if the famous French chef, Paul Bocuse, was caught spying at McDonald's to steal [illegible]king secrets," he [illegible]

IN THIS SURVEY

Editorial production Gabriel Bowman

Paul Betts on the prospects for commercial aircraft manufacturers

Upturn is still awaited

COMMERCIAL AIRCRAFT manufacturers around the world have been scrambling to cut production and employment so as to adapt to the siege-like conditions facing the industry.

Boeing, the world's biggest manufacturer of commercial jets with about 60 per cent of the world market, is reducing overall production by 35 per cent. It announced this year it would cut 28,000 jobs over the next 18 months.

McDonnell Douglas, now trailing behind the European Airbus consortium as the world's third commercial aircraft maker, is reducing its workforce by 10 per cent this year after cutting it by 20 per cent last year. By the end of 1993, the group's overall employment will have dropped from 121,000 in 1990 to about 78,000.

Recovery is likely to be less vigorous than in previous cycles

All four Airbus partners – Aerospatiale of France, Deutsche Aerospace, British Aerospace and Casa of Spain – have had to scale down output to match the slowdown in the European group's expected deliveries of new aircraft during the next three years. Mr Jean Pierson, the Airbus managing director, says the consortium's production is now expected to grow from about 150 aircraft this year to about 170 in 1995, compared with an original target of 225 in 1995.

The industry's cyclical downturn has been longer and fiercer than previous ones. Since the advent of the jet age, the world travel industry has suffered three major slumps which were followed by sharp recoveries. But the situation is different this time because the slump has coincided with a decline in the defence side of the aerospace business, which helped sustain manufacturers during the previous cyclical downturns.

Although all three big manufacturers remain confident about long-term prospects for the industry, they are uncertain when the market will finally pick up. Most conservative estimates expect the upturn to occur around 1994 or 1995. Recovery is likely to be more gradual and less vigorous than in previous cycles.

Airlines, which have made a cumulative loss of more than $10bn on international scheduled services over the past three years, are continuing to defer and cancel new aircraft orders booked during the buying spree of the late 1980s.

Boeing now concedes in the 1993 edition of its annual industry market outlook that "it was evident that airlines and leasing companies were ordering more aircraft than was necessary to meet demand," and that the manufacturers in turn increased production to meet this demand.

In 1989 alone, at the height of the order boom, a total of $90bn worth of new jet orders was booked by the manufacturers. Bookings last year fell to $29.9bn in reaction to overcapacity, difficulties in financing, slow traffic growth and monumental airline losses.

Although cancellations and order deferrals will eventually slow down as the balance between capacity and demand improves, a significant problem will be financing. "The airline industry is plagued by growing financial difficulties," acknowledges Airbus in its 1993 market study. "Current financial difficulties mean that many airlines are unable to raise funds to replace ageing fleets," it adds.

The replacement of older aircraft together with air travel growth are the two main components for aircraft demand. Airbus expects some 2,100 narrowbody jets and 500 widebody airliners to be retired over the next five years to make way for some 3,300 new aircraft. Boeing for its part estimates that of the 12,005 aircraft to be delivered between now and 2010, 25 per cent will be to replace older jets.

So far, however, the rate of retirements has been much slower than the manufacturers had expected. Airlines have delayed ordering new equipment in the face of dire financial difficulties. New sources of financing will also have to be found to support the $815bn that Boeing believes airlines will need to invest in new aircraft over the next 18 years to meet traffic growth and their fleet renewal needs.

Aircraft prices have been rising while margins remain under pressure

In spite of the cost reduction and restructuring programmes launched by airlines during the latest recession, all are finding it hard to make any adequate return. One reason is the continuing decline in real terms of their revenue yields and margins are expected to remain under pressure even when stronger recovery finally occurs. In contrast, new aircraft prices have been constant or increasing in real terms.

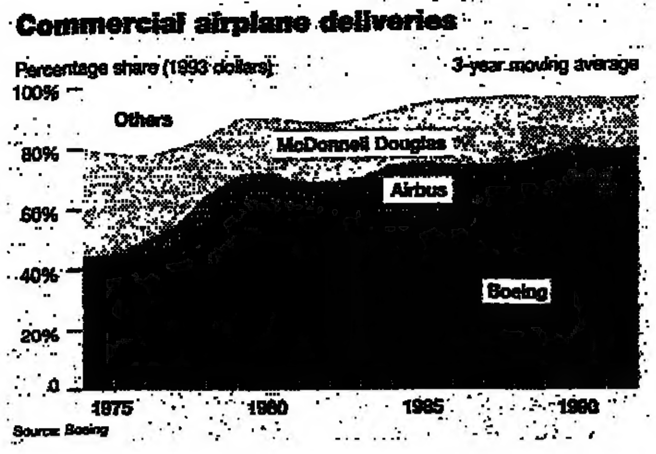
"A quantum reduction in aircraft price through production cost improvements is necessary for the financial health of both the airline industry and the manufacturing industry," British Airways, one of the few large profitable carriers, recently warned. Around the world more than 700 aircraft, which could be used, are grounded or for sale. While both the airline and aircraft manufacturing industries are near the trough of their economic cycle, BA says: "Unless there is an early resumption of long-term growth, together with new aircraft prices that airlines can afford, current orders could be further threatened with implications for the whole supply chain."

Manufacturers have responded by introducing greater automation in design, manufacturing and assembly processes to improved dramatically productivity. But this has not been sufficient to offset the ever-increasing costs of new product development.

Non-recurring research and development costs have been growing far more rapidly than inflation at a time when balance sheets have continued to be squeezed by the recession in the industry. At the same time, no manufacturer can clearly afford to risk abandoning or placing on ice future product development programmes if it wants to remain competitive in the longer term and take advantage of the eventual market recovery.

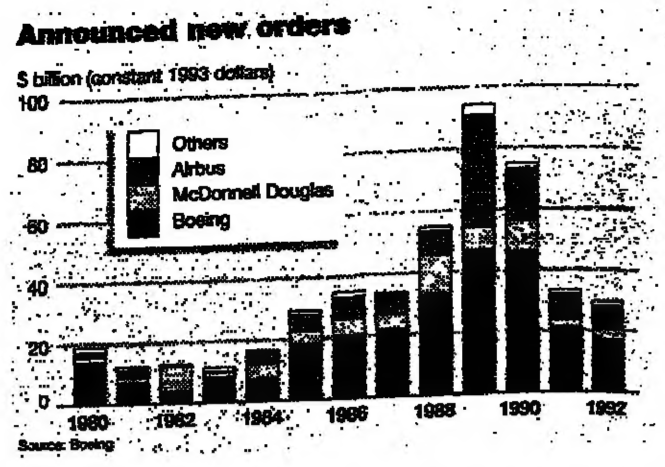
This has pushed manufacturers towards increasing international co-operation and seeking risk-sharing partners for new project developments. Even Boeing, reluctant in the past to share its programmes, has been actively talking for the first time of forging equity links with other international partners.

Commercial airplane deliveries



Source: Boeing

Announced new orders



Source: Boeing

For Boeing the practice of contracting with global suppliers was at first small, but it has been steadily growing over the years. Its first 707 had almost no foreign content. The 727 had less than 1 per cent, the 737 slightly more. Collaboration with other partners expanded with the 767 when the Seattle manufacturer established risk-sharing agreements with Japanese manufacturers and the Italians. The Japanese subsequently took a 20 per cent risk-sharing stake in the 777, Boeing's big twin engine widebody programme, already at an advanced stage of development.

McDonnell Douglas sees the solution of its problems in collaboration and global partnership. Mr John McDonnell, chairman of the US aerospace and defence group, wants to set up a new commercial aircraft company with a series of international equity partners prepared to invest in the development of new products.

Mr McDonnell failed to clinch a partnership last year with Taiwan Aerospace, which was proposing to invest $2bn for a 49 per cent stake in the Douglas civil aircraft business based in Long Beach, California. But the US group says it is engaged in mature discussions with a number of potential partners, including several in the Asia-Pacific region.

If successful, it would give McDonnell Douglas a similar risk sharing system operated by Boeing with the Japanese manufacturers and by the four European manufacturers in the Airbus consortium. "Airbus has become a model for such ventures in the aerospace and other capital-intensive industries," says Mr Pierson.

In the span of 20 years, Airbus has developed a highly sophisticated system for the integration of complex industrial processes across Europe, created a network of co-operation between major European manufacturers, and set in motion an irreversible trend of trans-national co-operation in the industry.

"Investments in research and development, production and after-sales service for large civil aircraft were, are and probably will remain, simply enormous," says Mr Pierson. "A new aircraft programme today is in the $3-4bn bracket with a maximum risk of exposure close to $7-9bn. Such risks are simply too much for a single manufacturer to bear," he explains.

In the face of all these pressures, new realignments are starting to emerge which could lead to a profound transformation in the structure of the commercial aircraft industry over the next decade. The first eloquent signs that this is beginning to happen is the agreement at the end of January between Boeing and the four partners of Airbus, its main European rival, to study the joint development of a super jumbo capable of seating up to 800 passengers.

David White on the cost of military aircraft

After the cold war

WHY CAN our air forces not make do with simpler aircraft? Why is it necessary to push technology – and costs – to such extremes?

The questions, frequently asked nowadays in a climate of declining defence budgets, are not new.

If governments had taken the advice given to them in 1917 by Cyril Hall, in his book *By Land, Sea and Air*, they would have stuck to biplanes. In a section on Modern Weapons of War he pooh-poohed the hopes that Germany, in particular, had vested in the monoplane.

"The monoplane," he wrote, "has a very limited speed range. It maximum speed may be anything up to 120 miles an hour, but its minimum is seldom less than 90 miles an hour. You can see what a grave disability is this high speed. Accurate observation is impossible, because the observer is travelling too fast clearly to see what is taking place on the ground. And it is too high for bomb-dropping. For what sort of chance of hitting the place at which it is aimed has a missile dropped from an aeroplane travelling at 90 miles an hour?"

This argument seemed to justify his conclusion: "It is highly unlikely that the development of the monoplane will be carried further."

Its echoes can be heard today. The end of the cold war has, in the past couple of years, brought a whole series of new combat aircraft projects under criticism and scrutiny. Because of the time needed nowadays to bring new aircraft into production, the fighters now under development were all conceived when the cold war was at its height.

In the US, industry has sensed the imminent crunch. General Dynamics' sale to Lockheed late last year of its Fort Worth aircraft operation, maker of the successful F-16, means that there are now two primary poles for design and manufacture – McDonnell Douglas and Lockheed.

Lockheed was already linked with General Dynamics in the F-22 project, the top-of-the range fighter designed to succeed McDonnell Douglas's F-15. Until the F-22 award in 1991, Lockheed seemed to be in the process of being sidelined after the completion of its F-117A stealth aircraft programme. Now the Fort Worth acquisition, says Mr Dan Tellep, Lockheed's chairman and chief executive, has "fundamentally transformed the landscape of military aircraft in the US."

Even if the F-22 project were cancelled – one of the options, if not the most likely, under consideration at the Pentagon – Lockheed would count on a role in whatever took its place. "It wouldn't devastate us," says Mr Tellep.

Priority has been given by the new Pentagon team to sorting out the four new tactical aircraft projects planned for the US Air Force and Navy. All are clearly not affordable in the same timeframe. The odds favour the F-22, although possibly with a curtailed and slower programme, and the new E/F versions of McDonnell Douglas's carrier-borne F/A-18 Hornet. This would be at the expense of plans for a new multi-role fighter and the A/F-X naval strike aircraft, successor to the A-12 project, cancelled two years ago.

The Pentagon's priority is to sort out four new tactical aircraft projects

Northrop's B-2 strategic stealth bomber programme has already been cut to 20 aircraft, and the Pentagon has threatened to stop the McDonnell Douglas C-17 heavy transport aircraft and find an alternative to the troubled $41bn programme. Other options for heavy airlift, if the contractor fails to meet requirements, are versions of Boeing's 747 and 767 airliners, a life-extension of the current Lockheed C-141 Starlifter or a restart of production of its C-5 Galaxy.

Europe's moment of panic appears to have passed with the patching-up last December of differences between Germany and Britain on the future of the European Fighter Aircraft.

The existence of three new-generation European fighters – the Swedish JAS 39 Gripen, the French Rafale and the Anglo-German-Italian-Spanish Eurofighter, all of similar delta-wing design with "canard" foreplanes – may seem excessive. But all are now secure, even though Germany still places a question-mark on its commitment on the production phase of Eurofighter.

The lightweight, multi-role Gripen (JAS is an abbreviation for fighter, attack and reconnaissance) is the furthest down the road. This is despite the setback suffered in 1989 when its first prototype crashed (not a unique occurrence: the US F-22 had a similar mishap in April 1992 at Edwards Air Force Base in California). The first production model of the aircraft – single-engined, in contrast to the twin-engined Rafale and Eurofighter – flew in March, and 140 are on order for delivery between now and 2001.

Dassault's Rafale, launched at the same time as the Eurofighter, has stolen a march on its heavier four-nation rival inasmuch as it at least has prototypes flying. But the programme could be vulnerable to cuts or further delays in purchase plans. Three different versions are being built – one-seat and two-seat aircraft for the air force and a carrier version for the navy. Current plans are for some 320 in total with the first navy squadron entering service late in 1998 and the first air force squadron at the end of 2000.

Preliminary discussions are already under way on new collaborative arrangements for the next generation. British Aerospace has begun contacts with Saab on a possible aircraft to fill the gap in the market now being successfully occupied by the Hawk trainer-cum-fighter. It has also talked to the French on the next frontline fighter to succeed the Rafale and Eurofighter. France cannot afford to go it alone again, and British industrialists and officials believe that any future project on this scale in Europe can be undertaken only on the basis of Anglo-French co-operation.

Delivery forecasts have been cut, writes **David White**

Helicopters held back

THE NEWS will be when a helicopter programme happens on time and according to plan. In both the US and Europe, all major military projects – the backbone of the industry – have been subject to delays in development or procurement.

Manufacturers have scaled down their forecasts for deliveries over the next 10 years, particularly on the military side. But total deliveries of civil helicopters were lower than expected last year at 650, compared with more than 1,000 in each of the previous two years and a rate of around 1,500 a year in the early 1980s before sales slumped.

Excluding small piston-engined craft, industry predictions are for a gradual recovery on the civil side from last year's 380 deliveries, with predicted averages of close to 500 a year up to 2002.

In the military sector, industry forecasts point to a market of about 12,600 helicopters in the 20 years from 1992 to 2011, worth about $105bn. North America is expected to account for about 4,000, Europe 3,300, south-east Asia and Australasia about 2,500 and the Middle East 1,100. Peak delivery levels are expected from 2003 to 2008.

What the industry will look like by then is a subject for speculation. Westland has continued to talk about closer ties with Agusta, while Eurocopter, the joint venture between Aérospatiale of France and Germany's Deutsche Aerospace, advocates broader European links. Since last year, McDonnell Douglas, which bought its helicopter division from Hughes in 1983, has been in the market for "joint ventures, partnership or sale".

This might mean different product lines going to different companies. Eurocopter is understood to have been interested in a purchase last year, but transfer of the AH-64 Apache attack helicopter to a foreign company was clearly out of the question.

McDonnell Douglas sees the helicopter division drawing good profits from the Apache for years to come. But one executive commented: "It's hard to make a successful company out of a single product."

The Apache is being put forward, in a joint bid headed by Westland, as the leading contender for a UK army contract due to be decided next year for some 100 helicopters, worth about £2bn. Among four other groups invited to bid, the main rivals are the CobraVenom, an updated version of the veteran Bell SuperCobra led by GEC-Marconi Avionics, and the Eurocopter Tiger, which is under development for French and German forces. British Aerospace is heading the Tiger bid for the UK. The helicopters are due to enter service – barring further delays – in 1998.

Two European naval and utility helicopter projects – the Franco-German-Dutch-Italian NH-90 and the Anglo-Italian EH101 – are now fully under way. The EH101 last year won a Canadian contract for 50 naval helicopters, but that would be vulnerable under a change of government.

In the US, the Bell-Boeing V-22 Osprey tilt-rotor aircraft, beset by two prototype crashes and attempts by the last US administration to stop the programme, is expected to be reinstated. But army plans, including Apache upgrades and purchase of a fleet of 1,292 Boeing/Sikorsky RAH-66 Comanche scout helicopters are being reviewed. The $40bn Comanche programme has been slowed down, with the operational deadline slipping four years to 2003.

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Why the trend to larger widebody jets seems unstoppable

The bigger, the better

SIZE rather than speed is becoming the dominant trend in commercial aviation. "The next big challenge for the industry will be the development of ever-larger jumbos capable of carrying 600 to 800 passengers rather than a second generation supersonic airliner," says Mr Adam Brown, planning director at the European Airbus consortium.

The average size of airliners has been growing steadily during the past decade from 176 seats in 1980 to 193 seats last year. Boeing, the world's biggest commercial aircraft manufacturer with about 60 per cent of the western market, forecasts the average will increase to about 227 seats by 2010. It expects larger widebody aircraft will account for 58 per cent of all seats delivered during the next 18 years.

This trend towards larger aircraft is driven by two factors: long-range, non-stop travel is expanding while on shorter routes big aircraft are seen as a way of beating congestion at busy airports. The new generation of jumbos also offers airline operators the opportunity to reduce their operating costs through a combination of enhanced technology and greater capacity.

Although the recession in the airline industry has forced the three big manufacturers – Boeing, McDonnell Douglas and Airbus – to cut production following a series of order cancellations and deferrals from financially pressed airline customers, all have forged ahead with development of new widebody aircraft.

Boeing, which has dominated the long-distance widebody market with its four-engine 747 jumbo, is now in advanced development of the 777, a new family of twin-engine widebody airliners with versions for medium range flights and others for longer routes.

It has invested about $4bn in the development of the 777 which will enter service in 1995. The three Japanese aerospace companies (Mitsubishi Heavy Industries, Kawasaki Heavy Industries and Fuji Heavy Industries) have participated closely in this programme with a share of around 20 per cent of the new aircraft.

The European Airbus consortium is now mounting an increasing challenge against Boeing's dominance of the big widebody market with its new family of A330/A340 widebodies. The A340 entered service this year. This four-engine airliner boasts the longest range of any civil aircraft capable of flying non-stop with a full passenger load for 16 hours or more. Later this year, the European consortium will start delivering to customers the A330, the twin engine sister of the A340.

In this market, McDonnell Douglas is competing with its MD11 three-engine jet. Although it has been retrenching heavily in the face of the industry slump, it is continuing to study the development of a larger stretch version of the MD11 as well as of a new, even bigger four-engine jumbo, the MD12.

However, these plans depend on the company's ability to complete the restructuring of its commercial aircraft activities by finding new international partners to invest in these operations and help fund the development of new large aircraft. McDonnell Douglas attempted to negotiate a partnership with Taiwan Aerospace but the $2bn deal finally fell through last year. The US company is now talking to potential partners in the Asia-Pacific region as well as other parts of the world to create a new joint partnership company for its commercial aircraft activities.

Apart from the big three western civil aircraft manufacturers, the Russian aerospace industry, with a long history of producing very large aircraft, is now also seeking to penetrate the western widebody market. It is forming alliances with western aerospace partners to develop jets for the Commonwealth of Independent States and other world markets.

To compete against the A330/A340, the 777 and the MD11, the Russian manufacturer Ilyushin has co-operated closely with US manufacturers to develop the Ilyushin 96M. This four-engine widebody with seating capacity for 386 passengers is the fruit of co-operation between the Russians, the US Pratt & Whitney group, which is providing the engines for the new aircraft, and Rockwell-Collins, which is supplying the avionic equipment and systems.

European and other US aerospace companies are now increasingly interested in working with the Russian industry. While strong on airframes, the Russians are seeking western help in particular for engines, avionics and cabin interiors to develop new airliners according to western standards for aircraft certification and passenger comfort.

But the biggest challenge of all for the commercial aircraft manufacturers will be the development of a very large aircraft capable of seating up to 800 passengers. Boeing, Airbus and McDonnell Douglas have all been studying plans to build a super jumbo. They have already had extensive meetings with potential airline customers to discuss their needs and the possible timing when they would require a very large aircraft to enter service.

The development of a super jumbo faces significant technical and financial hurdles. Many safety issues are raised, while costs are an even bigger obstacle

"Both Boeing and Airbus came to see us some time ago to ask us whether we had greater need for a new generation supersonic aircraft or a super jumbo. We said the big aircraft," says Mr Kenzo Yoshikawa, purchasing director of the Japanese airline All Nippon Airways. Other large carriers in the Asia-Pacific region, the US and a few in Europe have also expressed interest in a new large aircraft to enter their fleets at the turn of this century.

But the development of a super jumbo faces significant technical and financial hurdles. "It's always a nightmare building a big aircraft," says Mr Ken Brundle, head of aircraft operations at Shorts, the Belfast-based aerospace company.

An aircraft of such size will require a significant amount of composite materials to keep its weight down. Many safety issues are raised, such as how to evacuate large numbers of passengers from both the top and upper decks of a double deck airliner. Terminal gates will probably need to be redesigned and runways strengthened. For maintenance, new extra large hangars will have to be built. "Existing ground facilities and equipment are simply not adequate to handle such a double deck giant aircraft," says Mr Hideo Aoki, the engineering and maintenance director of ANA.

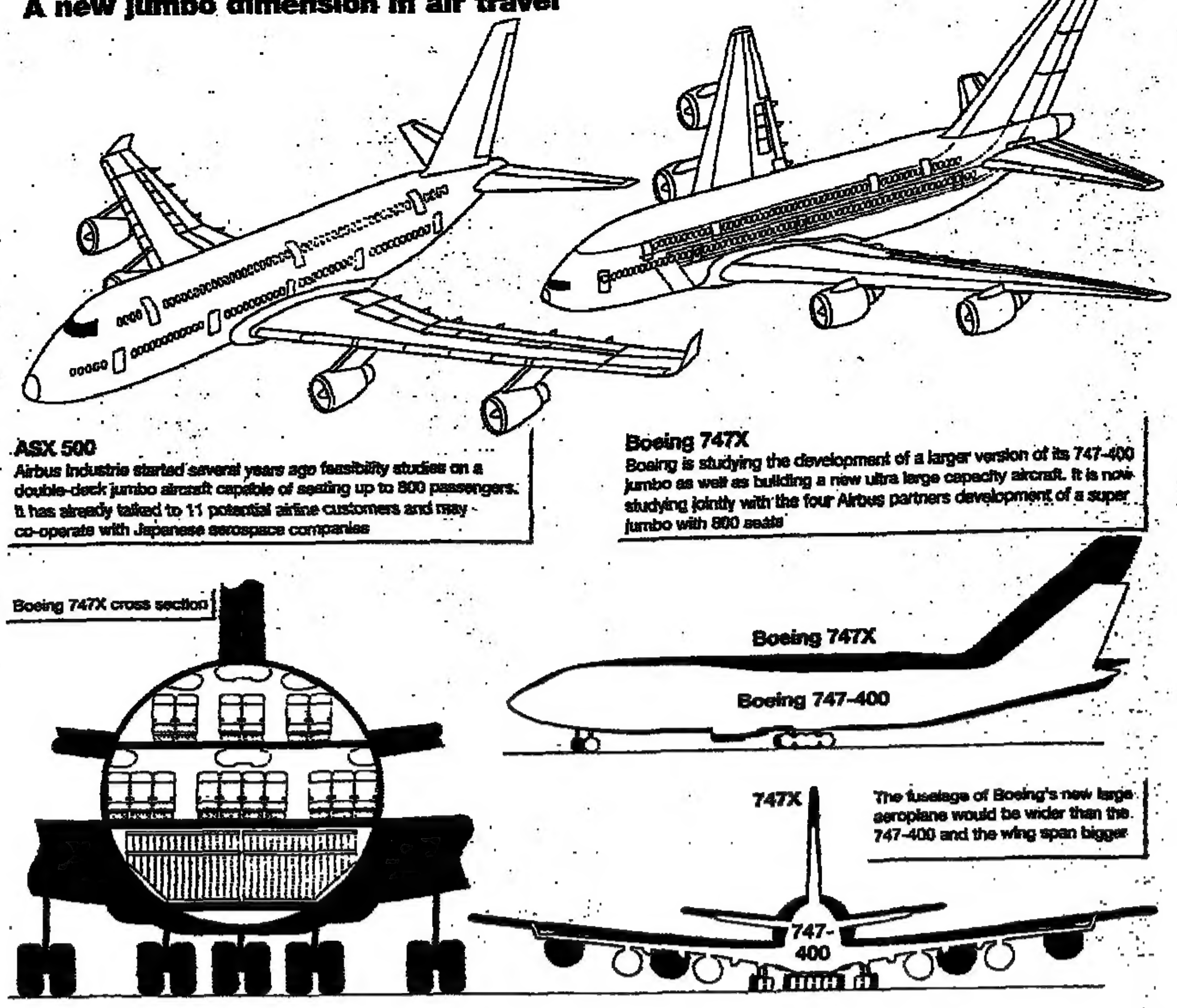
The costs of developing a super jumbo are an even bigger obstacle. The manufacturers estimate development would cost well over $10bn. "From an economic standpoint the crucial question will be how many of these aircraft will be needed. Estimates range from 200-300 aircraft to around 600-700 aircraft. I think 300 is probably the more realistic number," Mr Yoshikawa says.

At these costs, no single company could contemplate assuming the full risk of developing a super jumbo on its own. The only way forward will be through wide-scale co-operation between big manufacturers.

This has already led to perhaps a significant move in international collaboration in the commercial aircraft industry with Boeing's decision to join forces with the four Airbus partners (Aerospatiale of France, Deutsche Aerospace, British Aerospace and Casa of Spain) to study jointly a super jumbo. These companies are now also seeking to encourage others to join them including McDonnell Douglas in the US, the Russians and Japanese manufacturers. All agree that there is unlikely to be room for more than one super jumbo project.

Paul Betts

A new jumbo dimension in air travel



Paul Betts on how airlines are adapting to lower traffic growth rates

Giants emerge to jostle for position in world market

THE AIRLINE industry is in a state of turmoil. "All indications are that the early 1990s will be remembered as perhaps the most critical period in the industry's evolution," says Mr Karl-Heinz Neumeister, the secretary general of the Association of European Airlines.

Although traffic is now recovering after the slump caused by the combined effects of the Gulf war and economic recession, many world airlines are continuing to show heavy losses as they struggle to survive in an increasingly competitive market.

Apart from the traffic slowdown – in 1991 airline traffic fell by 3 per cent to show the first decline since the second world war – airlines have had to adapt to a regulatory revolution which has seen liberalisation spreading from America to Europe and in other regions of the world.

The pick-up has been slow, with continued pressure on revenue yields

There are signs of a structural change in the traditional "boom and bust" cycle of the industry. Previous cyclical downturns have been followed by sharp recoveries. In the current cycle, however, the pick-up has so far not only been slow but has seen continued pressure on airline revenue yields.

While airlines have seen their lower yielding economy cabins filling up with passengers again, first and business class traffic has remained sluggish. Some airlines have reported drops of between 10 to 20 per cent in first and business class passengers this year, while others say the trend of passengers downgrading from first to business or from business to economy class is continuing.

The capacity offered by airlines has also been outstripping passenger demand, although International Air Transport Association figures suggest that capacity is gradually becoming more balanced with demand in recent months. But there are still about 800 aircraft lying idle in the Arizona desert because of lack of demand, and the industry will remain under heavy pressure until the excess capacity in the market is finally absorbed.

Overcapacity has fuelled fierce fare wars as carriers have attempted to fill their seats and maintain market share at the expense of very poor financial returns. As a result, the airline industry reported a heavy loss of around $5bn on international scheduled services in 1992. Accumulated losses during the past three years now total more than $10bn and the industry is expected to show another big loss this year.

Both the airline industry and commercial aircraft manufacturers have been revising downwards their estimates for long-term traffic growth, which will be principally driven by real gains in gross domestic product in the industrialised markets. They now expect overall traffic growth to average 5 to6 per cent a year in the 1990s. The Asia-Pacific region is likely to grow most rapidly by about 10 per cent a year, while growth will be only around 4 per cent a year in the more mature European and North American markets.

But with traffic growth rates down from the high levels of the previous decade and more competition, an increasing number of airlines are struggling. One response has been to cut costs in an effort to improve productivity. Nearly 50,000 jobs were lost in the industry in 1991 as a result of restructuring. But this has not been sufficient and the past two years have seen a number of airlines disappear, including famous names such as Pan Am and Eastern and younger ones including Air Europe.

More structural adjustments will be necessary ifairlines are to survive in the new world order. At the same time, the twin pressures of deregulation and the increasing globalisation of the airline market are accelerating the consolidation of the industry.

In the US, after more than 10 years of deregulation, the industry is already heavily concentrated around a handful of giant carriers, with American Airlines, United Airlines and Delta Air Lines the three largest. Although these large carriers have also been hit by big losses and are cutting capital expenditure, they continue to have their eyes firmly set on international expansion in a drive to become global carriers.

In Europe, consolidation is now gathering momentum as airlines scramble to forge strategic alliances and partnerships with other carriers to build up their critical mass and compete in the global market.

British Airways has led the way by investing around £600m in the last four months in a series of strategic stakes in other airlines including USAir, Qantas of Australia, the regional French carrier TAT and a small German airline called Delta. It has also taken over the loss-making operations of Dan Air, the UK regional carrier based at London's Gatwick airport, and of Plymouth-based Brymon.

BA has been able to take advantage of its financial strength and the weakness of others to build this formidable set of global alliances. But other European carriers are now also actively seeking to increase co-operation links with other carriers to survive in the global market.

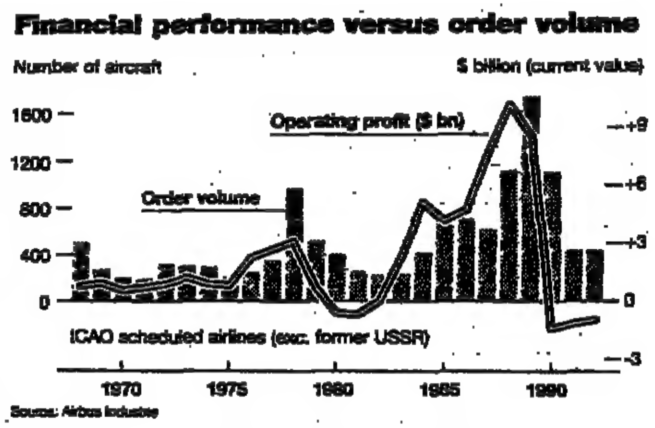
One of the most significant developments of recent months has been the partnership discussions between four European medium-sized airlines – Swissair, Scandinavian Airlines System, KLM Royal Dutch Airlines and Austrian Airlines – aimed at combining their operations under the umbrella of a single jointly-owned company. Between them, the four carriers would create Europe's biggest airline and what they call "a fourth force" in the European market to compete against the big three – British Airways, Air France and Lufthansa.

Medium-sized airlines plan to create "a fourth force" in the European market

Air France has also been increasing its mass by absorbing UTA, the French independent long haul carrier, taking over Air Inter, the domestic French airline, and acquiring a strategic equity stake in Sabena of Belgium. For its part, Lufthansa is currently negotiating an alliance with American Airlines and discussing partnerships with other carriers including Austrian Airlines.

While jostling to position themselves in the global market, airlines continue to be worried by the problems of congestion in the skies, because of inadequate air traffic control systems, and on the ground, because of the slow pace of new development at crowded airports. Both threaten to clip the wings of growth when the recovery in air travel starts gathering steam. As Sir Colin Marshall, BA's chairman, recently put it: "The overriding challenges we face are essentially two: the increasing level of deregulation in the industry and the old chestnut of infrastructure."

Financial performance versus order volume



Source: Airbus Industrie

SIZE OF THE GLOBAL ALLIANCES

	Sales (US $m)	RTK* (m)	RPK† (m)	Pax# (m)
British Airways + Air Russia + Deutsche BA	9,090	9,111	65,896	25.42
USAir	6,514	5,400	64,877	55.60
TAT	467	182	2,143	3.15
Qantas + Air NZ	3,099	3,904	28,836	4.53
Australian	1,168	745	7,643	7.35
	20,338	19,342	169,395	96.05
SIA	4,146	2,460	15,163	7.96
Delta	10,063	11,248	108,383	74.19
Swissair	3,185	5,331	34,894	8.13
	17,394	19,039	158,440	90.30
Swissair + CTA + Crossair	3,185	5,331	34,894	8.13
SAS + BMA + Spanair + LAN- Chile	5,807	1,847	15,416	13.90
Austrian	847	385	3,510	2.83
KLM + Air UK + Transavia + Martinair	4,189	4,988	28,736	8.22
Northwest	7,534	10,738	86,787	41.24
	21,562	23,289	169,343	74.32
American	12,887	15,368	132,502	75.90
Lufthansa	9,746	9,376	52,344	29.50
	22,633	24,744	184,846	105.40

*Revenue tonnes per kilometre. †Revenue passengers per kilometre #Passengers. All figures in millions
Source: The Avmark Aviation Economist, April 1993

David Boggis finds business aviation executives more optimistic

Phones start to ring again

OPTIMISM is returning to the UK's business aviation industry after a period that left companies "punch drunk" and "shell-shocked", according to Mr Danny Forman, chief executive of the General Aviation Manufacturers and Traders Association.

Gamta, which works from offices near Aylesbury, Buckinghamshire, represents business aviation in the form of companies ranging from equipment suppliers to executive-jet dealers. It promotes the growth of general aviation which, it explains, makes up more than 90 per cent of all UK-registered civil aircraft.

With the dark days of recession finally over, Mr Forman says, "the phones are ringing" with inquiries – not just about aircraft acquisition but about flying training.

Flying training is important because many of the industrial company executives responsible for placing orders for aircraft or charter services are pilots first and buyers later.

Upbeat confidence also comes over from Mr Anthony Hutton, director of the Flight International Business and Light Aviation Exhibition, a trade-oriented showcase for general aviation due to be open at North Weald airfield, Essex, on September 8-11.

Mr Hutton, who notes that his show has no flying display or other crowd entertainment, reports "an extremely optimistic" view of the future among companies. That has emerged since last September's Farnborough air show after a deterioration in confidence over the preceding year.

Not all the indications are so buoyant. In some companies, the corporate aircraft fleet has become a casualty of the recession.

United Biscuits has sold its King Air twin-turboprop. BP, the oil multinational, has got rid of a much costlier fleet, all jets: an intercontinental Gulfstream IV and two medium-range British Aerospace 125-800s (otherwise known as the Corporate 800).

United Biscuits explained: "In the present climate, we could not justify the aircraft." The company's executives are still travelling, but mostly now on airlines. If business is pressing, or if several people need to travel, the company will charter an aircraft.

BP's decision follows a recent management change. The company said: "We decided it was not cost-effective to use the jets this way." Now BP's use of charters has increased, mainly to countries of the former Soviet Union.

Ms Janice Hahn, of the Business Air Centre, a London charter broker, agrees that business from industrial companies has increased. Having received little such business during two years of recession, BAC now finds old clients returning with urgent requests.

"Bookings are up by about 30 per cent," Ms Hahn says. The proportion of business that BAC receives from industry is going up. "They are going out there to look for business."

Business for the centre looks unlikely to come from Glaxo. The company operates four jets and, after a review of costs, is getting rid of only one, a Gulfstream IV. The other three are staying, Glaxo says, because "it makes efficient use of executive time".

> **"We have looked at giving up [the jet] to cut overheads, but it is a valuable sales tool when you have to go out for customers"**

The aircraft that remain are a BAe 125-800, operated within the US; a Dassault Falcon 900 used by the board; and another G-IV, which runs a shuttle between Heathrow and the company's facility in North Carolina. There is no direct airline flight on that route.

Glaxo comments: "Our senior people are encouraged to visit the markets."

Sir Anthony Bamford, chairman of JCB, makers of earth-moving equipment, says of the company's BAe 125-800: "It's my office in the air." The company places importance on the amount of work that can be carried out actually during a flight.

Sir Anthony adds: "We have looked at giving up [the jet] as one of the ways of cutting overheads, but I think it is a valuable sales tool – particularly during a recession when you have got to go out and get customers."

JCB, which exports more than 70 per cent of its production, also operates an Agusta A109 helicopter from its base at Rocester, Staffordshire. One recent operation involved ferrying 20 clients from Rocester to a site at Milton Keynes. It took four flights but, in all, the company says, the helicopter proved "more cost-effective than rail".

Whatever the pros and cons of owning your own aircraft against chartering time on someone else's, one dealer believes it can give a company the best of both worlds. Air Hanson, of Blackbushe, Surrey, which distributes Beechcraft's range – including the King Air, market leader in the twin-turboprop cabin class – is offering aircraft on lease as well as for sale.

Mr Mike Lacey, Air Hanson's aircraft sales manager, says: "Aircraft are being targeted by accountants as unnecessary expenses." In the light of that, leasing becomes attractive, as the aircraft remains off the balance sheet.

Air Hanson's drive for more customers, in either form, reflects worries about the health of the UK economy in relation to economies in Europe. "A great number of businessmen don't take the continent seriously," Mr Lacey says. He adds: "My concern is that there has been a net exodus of aircraft from the UK, and the French and German aviation community is growing."

The dealer's campaign for lease customers emphasises the Beech Starship, a strikingly unusual design with a canard foreplane, fins at the wingtips, and turboprops driving pusher propellors. The Starship's impact on the European market has so far been limited.

Its competitors include Cessna's Citation range of twinjets. Cessna, which is based, like Beech, in Wichita, Kansas, has a representative office in Surrey that handles marketing for the UK, the Iberian peninsula and the Middle East.

Mr Barrie Sampson, regional sales manager for the Citation, says that, with the 2,000th of the type recently rolled out, the aircraft has overtaken the Learjet range to become market leader in the light jet category. Citation clients may deal through a finance company that will own the jet and lease it to the end-user, but Cessna wants sales, not leasing deals.

Mr Sampson is optimistic that his office will sell six or so of the 120 Citations that Cessna hopes to move this year. Over the past quarter, he says, "there has been a significant pick-up in the level of interest in the market."

His positive tone is echoed by Bob Crowe Aircraft Sales at Cranfield, Bedfordshire. Mr Bob Crowe says the mood among buyers has altered in recent months compared with the previous couple of years.

"We have never been so busy, talking to qualified buyers," he says. "Sales this past six months have been extremely strong. There has been much interest from UK buyers in the past two months." Otherwise, many sales have been to buyers abroad.

The company handles a big proportion of used aircraft, as well as dealing in new aircraft sales of the turboprop Cessna Caravan I and II. Up to 25 aircraft a year pass through the company's hands, giving a turnover in a typical year of $7m.

The "punch-drunk" days for the UK business aircraft market seem to be over. The industry is off the ropes and beginning to fight back.

Profitability in this high-risk sector is threatened, reports Daniel Green

Cut-throat scraps over space

THE BLUE skies that once attracted aerospace companies to commercial space markets are clouding over. A combination of technological and political changes is saturating the markets for launchers, satellites and ground equipment and threatening profitability and confidence in this high-risk business.

Most of the commercial space industry is about telecommunications, a sector being driven so quickly by technology that future growth prospects are being undermined.

Each generation of satellites packs in yet more transmitting power, using the latest miniaturised electronics. At the same time, the rocket improvements have gradually pushed up the average weight of a satellite: launchers can now put satellites weighing several tonnes into space.

The result is huge jumps in the numbers of telephone calls each satellite can handle, a rate of increase far larger than the growth in the number of long distance telephone calls actually made.

At the same time, improvements in rocket accuracy and satellite design mean that satellites last longer in orbit. Lifespans have crept up from less than 10 years a decade ago to more than 14 years now. With satellites lasting longer, they need to be replaced less often.

Add to that the power of undersea fibre optic cables, which compete with satellites to carry long distance calls, and it is clear that the number of new satellites that will be needed by the world's telephone companies is likely to be limited.

That is not the end of the commercial space industry's concerns. While established companies fight each other over a shrinking market, new competitors are entering the fray. The end of the cold war has brought in Russia and China, eager to sell their launch services for hard currency. Japan, too, is nearing the end of the development of a large rocket, the H2, and its electronics companies now supply many of the essential parts of US-built satellites.

The non-commercial space industry is suffering as well, as governments seek to cut spending. Nasa, the US space administration, is in the throes of a re-organisation triggered by budget cuts. And the European Space Agency has cancelled or postponed several large projects such as the Hermes manned space station. The governments of France and Japan are exceptions with their increased space budgets.

These developments have affected all three parts of the space industry, rocket launchers, satellites and ground equipment.

- In launchers, Europe's French-led Arianespace consortium is strengthening its grip on the market. Rivals in the US have slipped further behind in the last year. Confidence in General Dynamics has suffered badly as three of the last eight Atlas launches have failed while McDonnell-Douglas' Delta rocket is smaller than launchers made by Arianespace and is being left out in the trend towards larger satellites.

China, too, has been hit by question marks over who was to blame for the failure of a launch late last year. The giant Russian space industry is being constrained by tight restrictions placed on it by the US government.

And despite the uncertainties facing Russia, China and General Dynamics, Japan will not try to sell its H2 rocket for commercial contracts. Executives at Mitsubishi Heavy Industries, one of the contractors on the Y260bn project, say the market is simply too small for another new entrant.

> Established companies are fighting over a shrinking market as new competitors are entering the fray

Even Arianespace faces an uncertain future. The next model of launcher is the Ariane 5 which was designed partly to put the European manned space station Hermes into orbit. Now it will have to rely more on the commercial sector.

- In satellites, Hughes Aircraft of California maintains its dominant position, largely against US rivals GE and Loral.

Between them, the US companies have all but overwhelmed the European communications satellite construction industry. Some Europeans have carved niches as subcontractors supplying parts such as solar panels for US satellites. Others have not even been able to do this: British Aerospace, for example, has all but abandoned satellite construction and was unable to find a buyer for the remains of its business.

Many, such as France's Aerospatiale, and Matra-Marconi, a joint venture between France's Matra Group and the UK's GEC, rely on domestic or European public sector contracts for scientific research and earth observation projects.

- Ground equipment markets are dominated by Japanese companies such as Mitsubishi, NEC and Toshiba. But they, too, are concerned that space markets are limited.

Mr Hiroshi Kanai, general manager at Mitsubishi Electric's commercial space programs department, says there is pressure in Japan to buy US technology to help reduce the Japanese trade surplus.

The increasing power of telecommunications ground equipment, in parallel with developments in satellites, means that the market will not grow quickly, says NEC, Japan's biggest supplier of antennas.

Despite all these concerns, there are still opportunities for growth for the space industry. One that many have pinned their hopes on is the construction of global mobile telephone communications networks based on satellites.

There are several rival proposals. Motorola, an electronics company that was at the forefront of the spread of conventional cellular telephone networks, has its Iridium scheme. The plan is to launch 66 small satellites to ring the planet and allow mobile telephone users to dial anywhere from almost anywhere.

Similar schemes, using fewer satellites, have been proposed by Loral and Inmarsat, the international mobile telecommunications consortium, and others. If any took off, satellite builders and ground equipment makers should enjoy a stream of orders.

Rocket builders might not fare so well. Since the satellites for the network would be small, the number of organisations able to launch them increases. Several US companies could launch small satellites, perhaps with rockets carried into the upper atmosphere on aircraft. Lockheed, for one, has plans to cut launch prices to as low as $14m for such satellites – less than a quarter of typical rates on existing launchers.

Even this might not be enough to match Russia. It can launch several small satellites at a time on converted multiple warhead ballistic missiles.

The threat of such competition from Russia last month led to the US to impose strict limits on the frequency of Russian launches. It also put a floor on the price that Russia could offer.

Critics point out that there is no provision for retaliation against Russia should the deal between the two countries be broken. They argue that a similar agreement with China failed to prevent deep discounting by Beijing.

Such scraps are likely to continue as the space business becomes more cut-throat. The combination of technological and political change has transformed the space industry from one accustomed to relative certainties, with few suppliers and few customers, to one where uncertainty rules. It is, perhaps, no longer a business that can be run by former civil servants and air force chiefs, but one that will have to live by the rough rules of international commerce.

SINGLE EUROPEAN MARKET

Freedoms, but no bonanza

ALTHOUGH the Single European Market in air transport has now been in place since January 1, its effect to date has been less dramatic than many people both inside and outside the airline industry had hoped.

There have been few "new entrant" airlines and few new routes and services. Most of the activity on fares has been in reductions in a battle for the premium fare business class passengers, rather than the major cuts "across the board" that many passengers had been led to expect.

The "Third Aviation Package," giving effect to the SEM in air transport gave airlines three significant new "freedoms".

- First was the right to set their own fares, subject only to tightly drawn safeguards against unfair or predatory pricing, with the Commission itself having the right to arbitrate in the case of disputes.
- Second was that any airline meeting common safety, nationality and financial fitness criteria would be entitled to an operating licence anywhere in the Community (with restrictions on charter airlines being swept away) – the so-called "freedom of access".

Member countries could still regulate access to domestic services for their own airlines, but only on a non-discriminatory basis – they could not do so just to protect national flag-carriers. Member-states also retained limited scope for restricting access where congestion or environmental problems could be demonstrated, but again only in a non-discriminatory way.

- Third was the introduction of "consecutive cabotage" – the right of an airline from one country to operate limited capacity on onward domestic route sectors in other member countries (*ie* London to Frankfurt and then on to Berlin).

European air transport has not been a money-spinner for some time

Full cabotage – the right of any airline to fly anywhere in the Community – becomes effective only from April 1 1997.

Earlier hopes that all this would amount to a bonanza for airlines and air travellers have foundered so far, with the European airline industry plagued by serious operating difficulties. These have been complicated by the airlines' efforts to achieve cross-border mergers or alliances so as to become larger and stronger players in the international aviation arena.

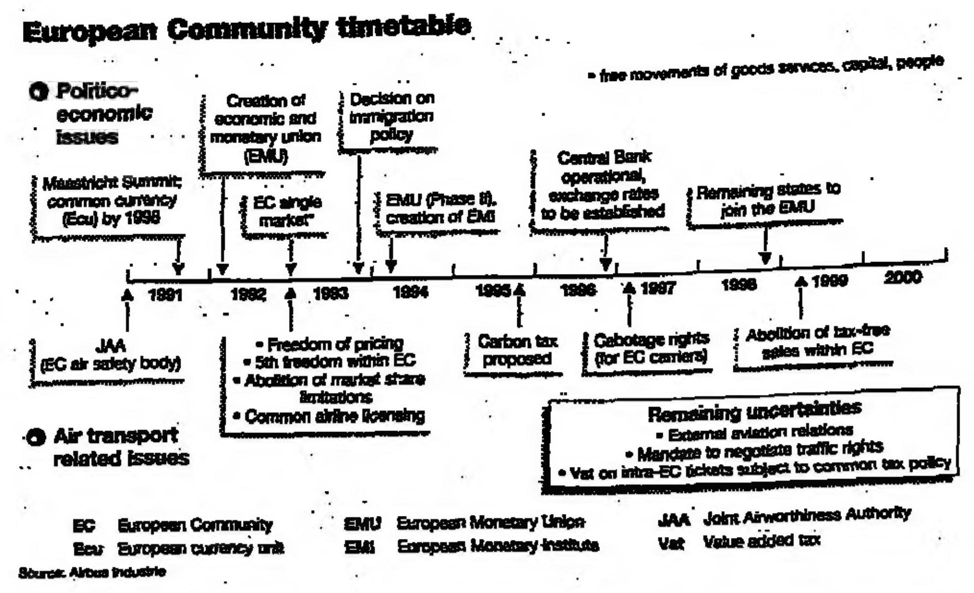
One of the most difficult problems has been the persistence of the economic recession, which has savaged airline balance sheets – overall worldwide industry losses over the three years 1990-1992 are estimated at over \$10bn, and will be further increased by end-93. A substantial proportion of those losses has been incurred in Europe.

The result has been a paucity of new entrants to the industry. One has been Air Russia, in which BA has a 31 per cent stake, along with Aeroflot and other Russian aviation interests holding the other 69 per cent. Formally created last year, Air Russia is expected to start services to Europe next year at the latest.

But the emphasis has been on the introduction of new routes by existing airlines (and even those have been comparatively limited), or increasing frequencies on existing services. Some routes have even been axed – for example, some European scheduled operations by Dan-Air were eliminated when British Airways acquired that airline last autumn.

BA's German venture, Deutsche BA (formerly Delta Air), in which BA has a 49 per cent share, has introduced several new routes, including Berlin to Moscow, Munich to Ankara, Stuttgart to Venice and Munich to Dresden, while the French-based TAT, in which BA has a 49.9 per cent stake (with an option on the other 50.1 per cent), has also launched new services.

By far the most active development has been in adding frequencies to existing routes to meet traffic growth. That occurs where the airlines concerned have either already been in possession of the necessary "slots" – take-off times – or have been able to gain additional ones, often by juggling schedules to enable them to transfer less busy services to off-peak periods, thus releasing precious peak-time slots for more profitable operations.



Apart from the economic climate, the slots problem is probably now the most serious constraint on the development of European air transport. Increasing traffic, the lack of adequate ground infrastructure (not only runways but also terminals), and the need for extensive improvements in air traffic control throughout Europe (because of not only past inadequate investment but also lack of harmonisation and integration of facilities throughout Europe) are all part of the problem.

Efforts by the EC itself to solve the problem by preferential treatment for new entrants, stricter rules to deal with airlines failing to use allocated slots, and introducing more scheduling committees to control slot distribution at major airports, can be only temporary palliatives. Until increased infrastructural investment results in more runways, more terminals and fully harmonised and integrated air traffic control, the slots problem is likely to remain.

The most evident effect of the SEM so far has been in the fares arena. But although Lufthansa cut fares early in the new year, and was followed by other airlines, in recent weeks the activity has been focused more on airlines' efforts to generate higher-yielding business class traffic, leading to a "class war" throughout Europe, with Aer Lingus, Air France, British Midland and KLM among those involved, while other carriers have introduced reduced-rate season tickets, or improved the quality of cabin service.

All this, however, has stemmed more from a desire to win back the many business travellers (and their employers), who in a recessionary economic climate were rebelling against the high costs of business class travel in Europe and trading down to economy class, than from a genuine desire on the part of the airlines to use the SEM fares freedom to generate overall traffic growth.

European air transport has not been a money-spinner for some time. BA's 1991-92 annual report showed that Europe (including the UK) generated turnover of over £3.3bn (£911m of it from continental Europe), but produced an operating surplus of only £20m, the airline's strong profits in that year coming from other parts of the world. Many other airlines are in a comparable, if not a worse, position.

This indicates that significant cuts in European economy fares will do nothing for airline balance sheets, and will only be sustainable if accompanies by rigorous cost-cutting.

It remains to be seen just how many EC airlines will be in a fit financial state by April 1 1997 to take advantage of the totally liberalised European air transport market that then becomes effective.

Michael Donne

Michael Donne reports on a sector growing faster than the trunk airlines

Lack of 'slots' hits the regionals

OVER RECENT years, Europe has developed an exceptionally large and diverse regional aircraft manufacturing industry.

But recently it has been suffering from a shortfall in new orders as the economic recession has bitten into airlines' balance sheets, resulting in severely curtailed aircraft re-equipment programmes.

In turn, manufacturers have been obliged to reduce aircraft production rates and labour forces to survive. One consequence has been a renewed interest in the possibilities of new strategic alliances, if not outright mergers. Some have already occurred, and in the near future there may be further significant realignments in the industry's overall structure.

The European regional aircraft industry supplies virtually every regional airline need, from small 10-seat twin turbo-prop airliners to 100-plus seat twin-jet aircraft.

Despite the recession, there is no lack of innovation, and many of the companies involved are looking ahead with new ideas for product improvements or entirely new aircraft models.

Few people doubt that better times will eventually emerge. Estimates for world traffic growth through to the early years of the next century are encouraging – the International Air Transport Association foresees European air passenger traffic rising from the 1990 level of 394m to 501m by 1995, 653m by the year 2000, 821m by 2005 and to just over 1bn by 2010.

Though much of that traffic will continue to be handled by the trunk-line carriers, especially on direct inter-city routes, the prospects for regional operations are excellent. For underneath the trunk-line routes is a vast network of complementary "commuter and feeder" operations linking hundreds of smaller towns and cities with each other as well as with the major "hub" airports in capital cities.

Such operations are essentially short-haul. The average sector distance in western Europe is close to 400 kilometres or about 250 miles, but many regional flights are for much shorter distances.

They are performed mostly by small turbo-propeller powered airliners, which means that they are quieter, and therefore more environmentally and neighbourhood friendly, capable of using smaller airfields as well as the big hub airports. The regionals thus provide a significant social as well as economic role in worldwide commercial aviation.

As a result, regional airline traffic in western Europe has been rising faster than that of the main trunk airlines in recent months. The European Regional Airlines Association's members registered average growth in 1992 of 16 per cent over 1991, against about 5 to 6 per cent for the major trunks.

This trend seems likely to continue, as recovery from the recession strengthens, and the effects of the EC's "third aviation package" of liberalisation measures, including freedom of market entry and access to new routes, takes full effect (although unlimited "cabotage" – the ability to operate unfettered services in other countries – will not become effective until April 1 1997).

However, like the larger airlines, the regional sector has its problems. These include shortage of "slots" (take-off times) at many big airports, which makes the introduction of new routes and services more difficult, and congestion in the air, which leads to delays for all operators.

Such constraints prevent the regionals from fulfilling their ambitions of expanding faster in the past, and thus also serve to curb their requirements for new aircraft.

Nevertheless, though worldwide orders for twin turbo-prop airliners, still the backbone of the world's regional fleets, fell away sharply in 1992, it has been estimated that demand to the end of the decade will average 200 to 250 aircraft a year, with the small twin-jets, such as the Canadair 50-plus seat Regional Jet and the new Fokker 70 of up to 79 seats, averaging about 50 a year. Through to 2010, the world market is estimated at several thousand aircraft, worth around \$60bn.

Most deliveries seem likely to go to the US and western Europe, where regional airline development is already extensive, but demand for regional aircraft elsewhere is also likely to be strong, especially in south-east Asia where overall traffic growth is likely to be faster than anywhere else.

In all, worldwide from north America and western and eastern Europe to Brazil, China, Indonesia, Israel, Russia and Taiwan, there are more than 30 manufacturers of all sizes engaged in struggles for shares of this extraordinarily large and diverse market.

Clearly, not all of these types are likely to make money in the years ahead, despite the big demand that is expected to emerge. Rationalisation of the industry is inevitable, to reduce industrial overcapacity, and achieve higher production rates and better financial results.

This has already begun. In north America, de Havilland of Canada has been acquired by Bombardier Group (which also includes Learjet of the US, Canadair and Short Brothers of Belfast). In western Europe, Aerospatiale of France and Alenia of Italy led the way some time ago with their alliance through Avions de Transport Regional.

This has now been followed with both the British Aerospace alliance with Taiwan on regional jet manufacture, and that between Fokker of the Netherlands and Deutsche Aerospace of Germany, whereby Dasa took a 51 per cent stake in Fokker.

Many see the Fokker move as a major step towards the inevitable restructuring of Europe's regional aircraft manufacturing industry. Since Dasa already includes Dornier, the Fokker deal gives the new group a significant stake in the market with a wide range of typesand potential for further developments – a new Fokker/Dasa 130-seater jet airliner is under discussion.

Over recent months, virtually everybody has been talking to everybody else about collaboration in some form or another. It has even been suggested that there is scope in western Europe for setting up a new international consortium of the Airbus type, devoted exclusively to meeting the world's regional aircraft requirements.

It remains to be seen whether such a grandiose plan ever sees the light of day.

Environmental factors now loom large, reports **Michael Donne**

Airport expansion takes off to cope with traffic growth

NEARLY ALL airports are undergoing some form of modernisation and expansion to enable them to cope with the anticipated growth in passenger and cargo traffic over the rest of this decade.

The Gulf War in 1991 severely depressed passenger traffic. The International Civil Aviation Organisation's statistics showed 1991 scheduled (domestic and international) passenger numbers down 3 per cent from 1.16bn in 1990 to 1.13bn.

The subsequent recovery, albeit slowed by the recession, has been steady. In 1992, airlines carried 1.17bn passengers.

The ICAO scheduled passenger forecast is for average annual growth up to 2001 of 5 per cent a year worldwide, with total passenger numbers reaching 1.8bn and freight 29m tonnes a year by that year.

In Europe, that forecast means that the 1990s passenger total of 394m will reach 653m by the year 2000 and more than 1bn by 2010, even allowing for competition from the Channel Tunnel which is due to enter service in 1994.

The tunnel may siphon off several million passengers a year from direct air services between the south-east of England and the near-Continent (Paris in particular).

However, there will be less diversion from air to rail services the further into western Europe or to the north and west UK that intra-European passengers wish to travel.

Airport authorities are thus obliged to think now about how they will cope with that anticipated traffic growth. They know it can take many years for airport expansion projects to move from conception to operational status.

This is not only because such projects are among the biggest – and most expensive – individual civil engineering tasks, but also because increasingly their design and development are governed by environmental factors which did not affect airport developments in the early commercial aviation era.

In the UK, the average time for an airport development to pass through all its planning, design, and construction phases is about 10 years. In some parts of Europe, it can take much longer – it took 30 years of political, financial and environmental wrangling before the Franz-Joseph Strauss airport at Munich emerged last year.

Overall, it is estimated by the ICAO that between now and 2010, as much as \$350bn will have to be spent worldwide on airport projects to meet traffic growth.

That figure represents construction costs alone – terminal buildings, runways, aprons, and immediate direct access roads. It does not include fitting out for full operational status – radars, landing systems, furniture, internal decoration, and equipment costs such as fire equipment and information systems.

The projected Terminal Five at Heathrow, London, is likely to cost £800m to £900m

Nor does it include ancillary costs that may be required, such as external road and raid links or external urban infrastructure costs to cover such supplies as gas, water, electricity, and aircraft fuel.

If these costs are included, the total world airport development bill for the next 15 to 20 years could run closer to \$400bn.

The figure may seem high but becomes more understandable when one considers that the projected Terminal Five at Heathrow, London, is likely to cost £800m to £900m. It will cater for up to 30m passengers a year, bringing Heathrow's total to 80m passengers a year). The first phase of the new Terminal Two at Manchester, which opened earlier this year, has cost £265m. It will raise capacity from 12m to 18m passengers – a second phase will lift it to about 24m.

A new terminal and associated facilities at Frankfurt is costing about £588m (DM1.5bn). Schiphol is well down the road on a \$2.2m (Fl 3.5bn) expansion programme including a big new passenger terminal.

Kansai Airport on reclaimed land in Osaka Bay, Japan, has cost more than £500m and Chek Lap Kok off Lantau Island, to replace Hong Kong's saturated Kai Tak, is likely to have cost even more when completed by 1997 with further outlays required for road links with the mainland.

The latter developments – for offshore airports – illustrate what may become a trend in the light of increasing pressures on land and environmental constraints on noise and pollutant emissions, especially in congested areas, such as western Europe and south-east Asia.

Only a few places in Europe have room for new runways. Paris Charles de Gaulle already has two and is destined to have a third by 1997, with additional terminals now available and more planned, to enable the airport to handle 80m passengers a year by the end of this decade.

Space is available for another two runways on the Roissy site. Collectively, this makes Paris the biggest European rival to Heathrow for international air passenger and cargo traffic.

Elsewhere in Europe, lack of space dictates that the expansion of facilities in anticipation of traffic growth is largely being met by extensions to terminals or the construction of new ones within existing airport boundaries.

BAA, the former British Airports Authority, is planning Terminal Five at Heathrow to fight competition from nearby continental airports such as Paris, Amsterdam and Frankfurt, and thus preserve London's pre-eminent position in European commercial aviation.

The additional capacity will be achieved without additional runways. This will mean greater use of existing and new wide-bodied aircraft and possibly, within the next few years, 600-seat aircraft.

The increase is within the current runway capacity at Heathrow, with no growth anticipated in night flights or the maximum hourly rate of movements.

Many argue that this expansion at Heathrow is unacceptable, and that consideration should be given to alternative solutions before any government decision on Terminal Five is taken in 1997 after a public planning inquiry which is expected to start later this year.

One alternative is the private-venture Marinair plan for an offshore two-runway airport on an artificial island in shallow water in the Thames Estuary near Sheerness, with passengers being conveyed by high-speed rail link from a main terminal at Tilbury on the north side of the Thames.

Marinair, although imaginative, is not without precedent – the UK planned an offshore airport at Maplin off Essex in the early 1970s, but abandoned it at the time of the first oil crisis in 1974. The Marinair plan has been submitted to the government's special airports study group, Rucatse – Runway Capacity in the South-East.

One alternative is an offshore two-runway airport in the Thames Estuary near Sheerness

The project has begun to win considerable support, especially from environmental groups around Heathrow, and much is likely to be heard about it at the planning inquiry. Even so, its promoters know they will have to work hard to win its acceptance over the Terminal Five concept, which is being pressed strongly not only by BAA but also British Airways and other airlines using Heathrow.

Whatever happens about Terminal Five, it is clear that the spate of airport improvements and developments will gather pace through the rest of this decade. Indeed, a continuously rolling programme of expansion is likely to emerge to meet the inexorable growth in passenger and cargo traffic.

Even if offshore airports are currently the least favoured option for new developments in the crowded European environment, they may be more seriously considered early in the next century when planners will have to prepare for traffic growth beyond 2025.

Paul Betts on the message to government from industry

Calls for support still unheeded

THE HEADS of Britain's aerospace industry have been filing in to a trade and industry committee in the House of Commons during the past few months. Their message has been invariably the same.

They warned that unless the government started digging deep into its pocket to provide the industry with more research and development funds, the UK risked losing its pre-eminent position as a world aerospace leader.

The industry, with an overall turnover of £11bn last year, accounted for about 4 per cent of UK manufacturing output and about 3.5 per cent of UK manufacturing employment. With exports of £7.7bn last year, it accounted for 9 per cent of all UK exports of manufactured goods and contributed about £2.5bn to the country's balance of trade in 1992.

An annual average growth of 12.6 per cent over the last decade means it has also outperformed the rest of UK manufacturing industry in terms of productivity, according to the Department of Trade and Industry.

But during the past three years of deep recession in the civil aerospace sector, compounded by the decline in government defence spending, the industry has faced pressures that are altering its shape and putting at risk its long-term prospects.

Employment has fallen from 194,000 people in 1989 to 146,000 at the end of last year. It is still

Its productivity has outperformed the rest of manufacturing industry

falling as aerospace and defence companies continue to announce new restructurings and job cuts.

Rationalisation has also led to greater consolidation in the industry and the search for international partnerships and mergers.

British Aerospace, the country's biggest company in this sector, has forged an alliance with Taiwan Aerospace for its loss making regional jet activities, resulting in the closure of its historic plant at Hatfield outside London.

It is in advanced discussions to merge its guided weapons business with the French Matra group and is looking for international partners for its turbopropeller commuter aircraft business based in Scotland.

Rolls-Royce, the engine manufacturer, is also talking with Taiwan over the possibility of Taiwanese investment in the family of regional aircraft engines it is developing with BMW of Germany. Like BAe, it is rationalising its sites, closing its helicopter engine plant at Leavesden in Hertfordshire and an aero-engine component facility at Parkside, Coventry.

In the aerospace component sector, Dowty has been taken over by TI group and Lucas has been regularly cited as vulnerable to a takeover. Shorts of Northern Ireland, the country's oldest aircraft manufacturer, has been absorbed by Bombardier of Canada and has reached partnership agreements with Thomson CSF of France in the short range missiles business and with another French company, Hurel-Dubois, in the field of engine nacelles.

But the industry warns that it requires government support to develop a coherent strategy for the future. "Unless the UK develops such a coherent strategy, our aerospace industry will fall behind," says Mr Roy McNulty, the president of Shorts who will also become this month president of the Society of British Aerospace Companies, the industry's trade association.

In 1992, for the second consecutive year, the UK aerospace industry was behind France in the world league. In terms of turnover, it is now in third place after the US in first and France in second.

With the exception of Belgium, the industry has also been growing more slowly that the aerospace sector of other European Community countries. EC statistics show the UK aerospace sector grew by 1.5 per cent from 1980 to 1991, while its French

Britain has been outmanoeuvred, says Lord Weinstock

counterpart grew by 4 per cent, Italy by 4.2 per cent, Germany by 8 per cent, Spain by 7.3 per cent and the Netherlands by 10.2 per cent.

"The industry has not benefited from the hands-off approach of the UK. We've simply not been spending enough and we've not been getting the same amount of support as other countries," Mr McNulty says.

In common with other industry leaders, he believes the government should increase its support for aerospace research and development from the current level of about £25m to about £100m a year.

"The government is spending more money on astronomy than on aerospace R&D; they should be supporting aerospace much more since it is one of the few manufacturing success stories of this country instead of looking at the stars in the sky," he says.

Lord Weinstock, managing director of GEC, told the parliamentary committee that Britain had been outmanoeuvred by foreign governments in the aerospace business because of its unwillingness to collaborate with industry. He urged government to intervene to help UK aerospace avoid "continuing industrial decline".

UK exports/imports
Military and civil (£bn)

Year	Exports	Imports	Trade balance
1980	2.7	2.3	0.4
1981	2.3	1.5	0.8
1982	2.8	1.8	1.1
1983	2.9	1.9	1.0
1984	3.2	2.3	0.9
1985	3.8	2.8	1.0
1986	4.3	2.4	1.9
1987	5.0	2.7	2.3
1988	5.4	3.7	1.6
1989	8.0	5.5	2.4
1990	8.0	5.9	2.0
1991	7.9	5.4	2.5
1992	7.7	5.2	2.5

Source: Business Monitor, Overseas Trade Statistics

In recent months, the dialogue between government and industry has improved significantly. The government has continued to give its strong support for the European Fighter Programme (now renamed Eurofighter 2000) which is still clouded with uncertainty. But Eurofighter apart, the industry believes the government must contribute more to ensure the UK remains at the leading edge of new aerospace technological developments.

The SBAC has emphasised that aerospace companies will need to invest heavily in new technologies at a time when product development costs are growing by between 5 and 10 per cent a year above inflation. However, companies are finding it increasingly difficult to sustain high rates of investment because the return on their sales continues to be squeezed by recession, the slump in the civil aircraft market and declining defence spending.

With the trend towards a global aerospace industry, the challenge for the UK will be to play a leading role in the international partnerships being forged. But UK companies will also have to be in a position to bring to the table their own contribution to future aerospace technology and innovation.

As the Royal Aeronautical Society recently put it in its submission to the parliamentary committee investigating the state of the British aerospace industry: "The government's aerospace policy priority should be the explicit recognition of aerospace as a key industry. This has been one of the first initiatives of the Clinton administration in the US."

Michael Donne on plans for a second generation supersonic airliner

Cost rules out competition

THE outlook for any second-generation supersonic transport aircraft to replace the Concorde in the first decade of the next century – say, around 2005, by which time Concorde will have been in service for close to 30 years – is still one of the great uncertainties in the world aerospace industry.

Many people in the manufacturing industry are convinced that such a venture is technologically feasible, and that a market will emerge for it. Governments for the most part remain cautious, and the airlines, ravaged by the recession of the past 2½ years, which has cost them billions of dollars, are at present in no mood to offer enthusiastic encouragement to such a venture.

Even those that are broadly in favour, such as British Airways and Air France (the only two airlines now offering supersonic services with Concorde), say that any successor must not only be profitable to buy and fly from the start, but also environmentally acceptable in terms of noise and emissions in the upper atmosphere.

To achieve these objectives, wide-ranging studies are being undertaken by the world's main aerospace manufacturers, including Aerospatiale of France, Alenia of Italy, British Aerospace and Deutsche Aerospace of western Europe, Boeing and McDonnell Douglas of the US, Tupolev of Russia and the Japanese aircraft industry, together with leading engine builders General Electric and Pratt & Whitney of the US and Rolls-Royce of the UK.

These companies work together in a loosely-knit group, exchanging ideas, with each still possessing a significant level of independence. There is as yet no commitment by anyone to build anything. The notion of an eventual second-generation SST, however, is expected to gain something of a boost by President Clinton's insistence that the US government-owned National Aeronautics and Space Administration must focus more attention and money on aeronautics than on space affairs.

Such a major policy change by Nasa seems likely not only to stimulate interest in second-generation SSTs, but also in such other new aircraft types as a subsonic 600-plus seater. The US president's plans for a commission to study ways of boosting the ailing US airline industry may also give some impetus to a second-generation SST programme.

But all that appears to be emerging from the research so far is that an aircraft seating about 300 passengers, with a range of 5,600 to 6,000 nautical miles and a speed of a little more than twice that of sound, or 1,500 mph, but with considerably quieter and cleaner engines, might well be a feasible proposition for service from about 2005 onwards.

This is a still a long way from any kind of coherent and practicable design, development, production and marketing plan.

In the technological field, much more work has to be done in refining overall aerodynamic and structural design, in determining what new lightweight materials could and should be used – and in such areas as improved fuel consumption, reduced engine noise and less pollutant emissions.

There is as yet no commitment by anyone to build anything. But President Clinton's insistence that Nasa must focus more attention on aeronautics is a boost

Of all these aspects, the latter two are among the most important. Even if all the other technological difficulties are solved, no second-generation SST will get off the ground if its engine noise and overall emissions levels, especially of nitrogen oxide (NOx), in the upper atmosphere are unacceptable.

This will be especially so since environmental pressures seem likely to become even more severe, perhaps leading to a toughening of regulations on noise and emissions in commercial aviation by the early years of the next century.

Other areas which have to be addressed are those of cost, and the detailed design, development and production arrangements.

Concorde's development and production cost of around £1.9bn in 1975 monetary terms is roughly equivalent to more than £7bn in today's prices.

Even allowing for improvements in production techniques, such as computer-aided design and manufacturing technology, and the extensive use of cost and weight-saving materials, a big second-generation SST is unlikely to cost less than £10bn for design, development and initial production.

At that price, there is unlikely to be a market for two competing designs, if the currently loose consortium were to divide into two competing camps (perhaps with the US pitted against the rest), even if market forecasts of upwards of 300-plus such aircraft are considered realistic. Competing designs would inevitably result in a bitter SST war, with all that means for soaring costs, market fragmentation, and uncertain and even unprofitable returns.

A more sensible scenario – already finding support in some of the companies involved – would be for the consortium to become much tighter, with an eventual agreement on a global co-operative venture, involving one common concept acceptable to all and with each sharing in the design, development and production programme, and in the costs.

Provided the industrial partners could put together a convincing case for such a venture, supported by detailed market studies as to sales prospects, it is probable that any funds the partners themselves could subscribe would be supplemented by cash from the external financial community.

Two other factors must also be taken into account. The first is how rapidly and how strongly the airline industry can recover from the current recession, recoup its losses and return to profits in the era of renewed traffic growth which lies ahead, thereby enabling it to embark upon procurement of ambitious new types of aircraft.

The second is how well the external financial community can recover its own shaken confidence in commercial aviation as a long-term money-spinner, sufficiently not only to meet the airlines' needs for cash to finance their recovery and renewed growth, but also to help the development of such a speculative high-technology venture as a second-generation SST.

Alternatively, governments could become directly involved financially, but past experience indicates there are many pitfalls in such an approach.

The best solution would be for everyone – aerospace industry, airlines, governments and financial institutions worldwide – to become involved in a partnership to develop and market one design that all could use.

Such a solution would be unprecedented in world commercial aviation, and would perhaps be difficult to achieve. But it may yet prove to be the only sensible and commercially viable way of ensuring that any second generation SST emerges early in the next century.

Solving the technological and environmental problems may indeed be easier than the problems of sorting out the ultimate industrial and financial arrangements for such a major venture.

Roland Rudd on a crisis in aircraft leasing

GPA's fall from grace

THE WORLD'S biggest aircraft leasing company recently averted examination, the Irish equivalent to administration, by pulling off a last-minute deal, subject to certain conditions, with GE Capital, the financial services arm of General Electric of the US.

If GPA Group's 138 banks agree to restructure the group's $5.2bn of debts, the agreement with GE will close in the next few months. GE has agreed to buy 45 of GPA's aircraft worth $1.35bn, giving it breathing room at least until the end of March 1994, and has an option to take a minimum of 65 per cent of the equity for less than $300m.

GE will pay for its controlling stake only when it exercises its option, which could be as late as March 1997. For a company that was once capitalised at more than $3bn, GPA's fall from grace has been spectacular.

The downturn in the world economy, in the world airline industry, in demand for aircraft, and perhaps most important of all, in the supply of equity for aircraft finance, led to GPA's problems.

Mr Craig Jenks, head of Airline/Aircraft Projects consultancy in New York, believes the reduced availability of long-term, low cost funding which adversely affected GPA was result of straightforward, legitimate credit concerns.

"The definition of a creditworthy airline is increasingly murky. A year ago, credit was assumed to vary directly with size, with the big carriers seen as the top credits. This is no longer the case."

Yet GPA has a big rival in the aircraft leasing business, namely the International Lease Finance Corporation, the Beverly Hills subsidiary of AIG insurance group, whose revenues have increased by more than 112 per cent since 1989, from $334m to $731m at the end of 1992.

This contrasts with GPA's results, recently filed with the US Securities Exchange Commission.

For the end of March 1993 GPA lost $128.1m of revenue, more than 11 per cent of its total lease revenue compared with $71m the previous year and just $4.8m in 1989. The group was forced to repossess

ILFC, the company's big rival, has increased revenues by more than 112 per cent since 1989

26 aircraft; a further 27 aircraft remained on the ground while other repossession costs and bad debts written off increased the total amount of lost revenue. GPA's aircraft sales fell from $1.2bn to $746m.

The only bright spot has been the core leasing business, which under Mr Phil Bolger increased revenues from $435m to $528m. However, after restructuring costs that are expected to run into hundreds of millions of dollars, the group will make a significant loss for the year end to March 1993.

There are three main reasons why GPA has recently performed so poorly compared with ILFC.

- GPA's bulk-purchasing of aircraft, directly from the manufacturers, worked well during the worldwide aircraft shortage that developed in the late 1980s. In the recession of the early 1980s airlines were financially stretched. In the US their problems were compounded by deregulation.

As the aircraft manufacturers found their order flow falling, GPA and other companies in the operating lease business offered cheap aircraft. Airlines were also pleased with new sources of off-balance sheet finance.

However, GPA's success in this area promoted a further explosion of $17bn worth of options and firm orders in 1989. Two years later it was taking delivery of 10 per cent of all new aircraft as the industry went into one of its worst ever recessions.

- The group misjudged the potential in eastern Europe. At the beginning of 1990 it allocated $2bn of aircraft to east Europe for the coming decade. Mr Jenks says: "This was a massive overestimate of ex-Comecon ability to pay dollar rentals."
- As the market turned against GPA, it suffered a significant deterioration in the credit quality of its lessees. Some defaulted, such as VASP, the Brazilian airline, forcing GPA to repossess aircraft; others rescheduled lease rentals, and American West Airlines filed for protection from its creditors under Chapter 11 of the US bankruptcy code.

Faced with $12bn of firm orders from aircraft manufacturers to the end of decade and more than $5bn of total debts, the company decided at the beginning of 1992 to raise equity via a global flotation. But it was pulled because of the lack of demand. The fate of GPA was determined largely by its inability to raise that equity, which it has tried to do on many occasions over the past year.

If the banks agree to the restructuring the group's bondholders receive $762m in principal payments and $220m in interests. Mr Jack Hersch, research director at MJ Whitman, which specialises in selling bank debt, believes these payments are unrecoverable from future operations. He recommends that investors avoid the bank debt at current prices of 75 cents in the dollar and only purchase it as 66 cents or less.

Most of the GPA's lenders are relieved that the end of the group's difficulties is at long last in sight. But the pessimists, such as MJ Whitman, believe the GE deal is only a temporary fix to GPA's problems and that only examination offers GPA the chance to restructure on a long-term basis.

■ CANADA

Helicopter deal at risk

THE AEROSPACE industry has more than a passing interest in the campaign leading up to Canada's general election later this year.

One of the hottest political issues in recent months has been a C$5.8bn order signed by the Progressive Conservative government for 50 European-designed EH-101 helicopters.

Mr Fred Sutherland, president of the Aerospace Industries Association of Canada, says that as many as 400 Canadian companies, led by Montreal-based Paramax, stand to benefit from the contract. They would also gain valuable export work for future EH-101 sales to other countries.

The helicopters are required for search-and-rescue and anti-submarine work. But by common consent, they are among the most costly of their type on the market.

Coming at a time when the squeeze is on many other areas of public spending, the contract has given the government's political opponents an irresistible opening. The issue has been blown up even further by the coincidence that the defence minister, Ms Kim Campbell, is both the frontrunner to succeed Mr Brian Mulroney as prime minister and is in charge of the department which ordered the helicopters.

The opposition Liberal party has promised it would try to cancel the contract if it wins at the polls. Few would be surprised if the Conservatives scaled back the order even before the election.

Any cut, however, would be a further setback to companies which are already being forced to retrench as orders shrivel for both military and civilian aerospace equipment.

Canada's aerospace industry is the world's sixth biggest. It has been hit by many of the same blows inflicted on its counterparts elsewhere – the recession, cuts in military spending and the deep slump in the civilian aircraft market.

In a trend typical of the industry, Canadian Marconi, which is 52 per cent owned by the UK's GEC, has chopped its workforce by a third over the past three years. Marconi relies on military orders – the bulk of them from the US – for three-quarters of its work. Like other companies, it is diversifying in an attempt to lower its reliance on defence orders. It has already bought a stable of global positioning products, and is on the look-out for other acquisitions of products, technology or companies.

Bombardier, by far Canada's biggest aerospace company, has been able to soften the blow somewhat by rationalising the activities of the businesses it has bought over the past few years in north America and Europe.

For instance, the Canadair Regional Jet division, based in Montreal, has pooled its marketing and customer support resources with de Havilland, the commuter aircraft maker in which Bombardier bought a majority stake last year. De Havilland's plant in Toronto has been assigned paintwork and interior fitting for the RJ. It is also supplying wings for the latest model of the Learjet, Bombardier's US subsidiary. Yet another Bombardier company, Short Brothers of Belfast, Northern Ireland, is designing the Learjet 45 fuselage.

Still, intense competition in the commuter market has taken its toll on Bombardier. De Havilland is closing its assembly line for two months this summer. The RJ production line, currently producing two aircraft a month, will reach full capacity of four a month, at least a year later than planned.

With the airframe market so crowded, Mr Sutherland predicts that the brightest spots in Canada's aerospace industry will be companies able to find a specialised corner of the market.

Those which have already sprung to prominence include CAE Industries, a world leader in manufacturing sophisticated flight simulators; Spar Aerospace, the satellite communications company whose best-known product is the "arm" attached to US space shuttles; and Vancouver-based MacDonald Dettwiler, which specialises in satellite-based data collection, also known as remote sensing.

Bernard Simon

■ FRANCE

Vista of freedom

THE BALLADUR government has opened a new vista for France's aerospace industry by including Aérospatiale, the country's leading aircraft and missile maker, and Snecma, the aero-engine manufacturer, as well as Thomson, the electronics group, in its list of state companies to be sold off.

Pressing though the government's need is for cash, the aerospace industry is most unlikely to field the first candidates for privatisation. The losses of Aérospatiale and Snecma deepened last year, while Thomson's group profits were sharply down.

But the privatisation legislation carries no time limit, and once it is passed, the government says, the companies concerned will have more freedom to forge new industrial partnerships even before they reach the stock market.

There is, of course, no question of these aerospace companies swimming right out of the orbit of the French state, which will retain an effective form of control through the defence budget and "launch aid" for civil aircraft. The government has not specified in which companies it will take "a golden share" allowing it to block takeover bids, but it is more than likely that this mechanism will be used in the aerospace/defence sectors.

Faced in 1992 with its first contraction of business in 30 years, aerospace companies have already been trying to strike new alliances both inside and outside France as a way of stemming money and job losses.

Aérospatiale's joint Eurocopter company venture with Deutsche Aerospace (Dasa) got off to a bad start last year, with sales falling 12 per cent and 500 employees being laid off. But it has been talking about rationalisation in missile-making to both Matra and Thomson, though the latter has decided to link forces with Shorts, the Canadian-owned Belfast firm, in making very short range ground to air missiles.

The previous Socialist government has brought Dassault, France's military and business jet maker, into closer partnership, particularly in R&D, with Aérospatiale. But the two companies' product range remains very different. For the long term, Dassault has started talking to British Aerospace about a joint successor aircraft to the Rafale and the European Fighter Aircraft which the two companies are building separately. In parallel, Snecma, which has made the Rafale engine by itself, is discussing co-operation with Rolls-Royce, a diversification from the French company's long-time partnership with General Electric of the US on civil engines.

All this strategic manoeuvring is taking place in a business trough which Mr Henri Martre, former head of Aérospatiale and current president of Gifas, the French aerospace association, does not believe will end before 1995. Gifas reported that total turnover last year fell by 1.5 per cent to FFr101.4bn, while employment in the industry dropped again – despite substantial short-time working – to 111,600.

The 1.8 per cent decline in civil sales was sharper and less expected than the smaller 1.2 per cent drop in military sales, which shows signs of bottoming out. The general problems of the airline industry, and the particular plight of Air France which lost some FFr3.2bn last year, were the root cause. Aérospatiale and its three Airbus partners kept their second place (31 per cent) in the world market for airliners of more than 100 seats. But the pleasure of seeing Airbus orders rise from 101 in 1991 to 136 in 1992 was alloyed by the fact that last year also saw previous orders for 95 Airbus cancelled. The Franco-Italian ATR consortium making regional haul aircraft also had a disappointing year, while Dassault's civil business is essentially marking time until its Falcon 2000 range comes on stream.

France's aerospace industry knows it can expect little joy from the French defence ministry, whose equipment budget has declined by 8 per cent over the past two years and is likely to bear the brunt of further austerity cuts by the Balladur government. But military exports bounced back last year with a 4 per cent rise, while orders increased by 21 per cent, compensating for the 30 per cent decline in 1991. This was mainly thanks to a large order from Taiwan for 60 Mirages 2000-5s and some 1,500 missiles. A number of avionics and electronics firms will feel the benefit of this order, but most will go to Dassault and Matra, makers of the Mirages and most of the missiles concerned.

David Buchan

■ THE US

Merger wave to continue

THE US aerospace industry is in the throes of a wrenching contraction as it struggles with the twin problems of a downturn in the civil aviation business and a shrinking US military budget.

The result has been tens of thousands of job losses across the sector and, on the military side of the industry, a merger wave which still has a considerable way to run.

The civil aerospace business should eventually recover, as the US and world economies shrug off their current weakness, but the end of the Cold War means the military contractors face a long, one-way decline in demand.

US government spending on all types of military supplies is estimated to have dropped from a peak of $206bn in 1987 to $161bn last year and analysts expect it to fall to around $130bn by 1997.

In previous US downturns, contractors have been able to ameliorate their difficulties by building up overseas sales, but the growth potential far from matches the scale of domestic cutbacks.

North American companies divide equally on whether military exports will increase or decrease over the next four years, according to a new survey, conducted by consultants Ernst & Young, of global defence industry attitudes towards the challenges facing the sector.

This backdrop poses tricky strategic decisions for military contractors, who are being pushed by market forces either to acquire their rivals, and thus gain a leading position in a particular sub-sector of the market, or to sell out to companies which can achieve this critical mass. Those which delay too long risk being left out in the cold, facing a gradual slide to insignificance.

An article late last year in the Harvard Business Review by Mr Jerrold Lundquist, of management consultants McKinsey, argued that "today a dozen defence companies compete in six or more market segments. Tomorrow they will compete in two or three.

"Several large companies and scores of small ones will fold altogether. In 1992 there are 13 companies in the space segment and 16 vie for a slice of the avionics pie. By 1997 there will be only five or six in each group."

The Ernst & Young study found almost all North American companies expect significantly more consolidation, with some 60 per cent expecting a large number of sub-contractors to leave the defence business.

The industry's most aggressive deal-maker so far has been General Dynamics, until recently the second largest defence contractor, which has just sold its tactical military aircraft business to Lockheed for $1.525bn.

The main product of the General Dynamics division is the F-16 fighter, output of which is now well past its 1960s peak, but it and Lockheed were already partners (along with Boeing) in the development of the F-22, a new generation of radar-dodging fighters.

The Lockheed deal was only the latest in a series of disposals by General Dynamics which also included Cessna, the light aircraft manufacturer (sold to Textron) and its missiles operations (which went to Hughes Aircraft).

Nevertheless, the latest deal took analysts by surprise because Mr William Anders, the General Dynamics chairman, had repeatedly insisted that tactical military aircraft was a core business he wanted to hang on to.

Yet he had also complained that his efforts to buy businesses had been frustrated by the reluctance of rival contractors to sell off sub-critical operations.

Military contractors are being pushed by market forces either to acquire their rivals or to sell out

The largest single defence deal to date was struck last November, when Martin Marietta – a leading manufacturer of space launch vehicles, such as the Titan family of rockets, as well as military electronics, information systems and missiles – acquired General Electric's aerospace business for $3.05bn.

The GE business supplies radar, sonar avionics and armaments systems, missiles system components and commercial satellites. The deal positioned Martin Marietta to become the leading US aerospace electronics supplier.

However, buying a rival is only the first stage in building a successful business. The two sides have to be smoothly integrated. Martin Marietta, for example, recently formed six new sectors to align similar businesses and warned that it expected lay-offs as it continued the consolidation process.

McDonnell Douglas, the largest US defence contractor of all, faces big problems in civil aircraft, where it has lost its position as the second-largest manufacturer in the world to Europe's Airbus Industrie, and on the military side of its business.

There is a large question mark hanging over the fate of the controversial C-17 transport it has been developing for the Pentagon and which is way behind schedule and far over budget. In a letter to the company in early May, the Pentagon warned that unless the company takes "immediate and aggressive action" to improve its management of the programme, the jet might be cancelled. Some congressmen would like to see the programme scaled back to only half the 120 aircraft originally envisaged at a cost of up to $40bn, while others would be happy to kill it.

Apart from the C-17 and a bitter dispute with the government over who should pay for the cancelled A-12 programme, McDonnell's large military aircraft business, which includes the F-15 and the F/A-18 fighters, is solidly profitable and last year won some important new contracts, including an order from Saudi Arabia for 72 F-15s.

However, the commercial business faces an extremely uncertain future. It is modestly profitable, after big cuts in its workforce, but it has not won any big new orders in almost two years and its product range – the narrow-bodied MD-80 and the wide-bodied MD-11 – is more limited than that of rivals Boeing and Airbus.

It plans to build a new super-jumbo jet, the MD-12, but is so financially stretched it cannot afford to do so alone. Last year it tried to get partners among Asian nations to invest equity in the commercial aircraft business in return for part of the MD-12 manufacturing operations.

So far, these efforts have been unsuccessful and the project has been put on hold until conditions in the airline industry pick up. Yet without the MD-12, many analysts question its long-term ability to survive in the commercial business.

Boeing is also suffering from the recession, which is forcing it to cut 28,000 jobs, or a fifth of its employees, between the start of this year and the middle of next, while production on all its jetliners is being cut by an average of 36 per cent by mid-1994.

For all that, a battened-down Boeing, with a share of around 60 per cent of the commercial aircraft market and a firm backlog worth around $83bn, should be well placed to take advantage of the next cyclical market upturn.

Martin Dickson

■ THE ASIA PACIFIC

The engine heats up

THE OFFICE of Mr Donald Schmidt, acting director for the Asia Pacific of the US Federal Aviation Administration looks out over the runways of Changi airport in Singapore.

"The growth of aviation in this part of the world is incredible," he says. "I've been here since 1988 and just by looking out the window, watching the increase in flights, I can tell how fast aviation is moving in this region. It's like an engine heating up."

The statistics support Mr Schmidt. There has been double-digit growth in airline traffic across the Asia Pacific in each of the past 20 years.

The International Air Transport Association forecasts that passenger numbers in the region will double between now and the year 2000. The region will then account for nearly 40 per cent of worldwide passenger traffic and by 2010 that figure will be more than 50 per cent.

Iata predicts that passenger traffic in south-east Asia will grow by more than 9 per cent in each of the next three years, compared to annual growth forecasts of 3.9 per cent in Europe and 5 per cent in North America.

As passenger numbers have grown, so the whole focus of the aviation industry has shifted. By the year 2005 Boeing predicts that the Asia Pacific will surpass the US as the largest market for aircraft deliveries.

Countries buying aircraft have been demanding more technology transfer and a greater share of aerospace manufacturing. The need for these "offset" arrangements means aircraft manufacturers are basing increasing amounts of their component manufacturing in the region, both on the civil and military sides of the industry.

But this is not the only factor behind the growth of the Asia Pacific aerospace industry: in many cases, particularly related to aircraft maintenance, the Asia Pacific is a better financial proposition. Last year United Airlines of the US purchased seven 747 200s from Qantas, the Australian carrier. United had the aircraft modified and serviced in Singapore rather than back in the US.

"Singapore has the facilities, a very competitive cost structure and a good reputation for doing the work on time," says Mr Terry Waldo, United manager in Singapore.

Some manufacturers have sought to form strategic alliances – such as the recent joint venture to manufacture regional jets announced between British Aerospace and the aerospace industry in Taiwan. Almost every country in the region has some form of aerospace industry: Airrod in Malaysia carries out work on US military aircraft and a growing number of other maintenance tasks. There is talk of possible technical collaboration between Malaysia and McDonnell Douglas.

The Asia Pacific will overtake the US as the largest market for aircraft deliveries by the year 2005, says Boeing

IPTN in Indonesia has, in a little over 10 years, reached a stage when it is now in the process of manufacturing its own turboprop jet, the N250.

Meanwhile Singapore has built itself up into a regional maintenance centre. The industry grew, from the mid-1970s, out of the repair and maintenance of military aircraft. The facilities provided by Changi airport, consistently voted as the world's best, have encouraged local and foreign aerospace enterprises to develop.

Nearly 50 companies in Singapore carry out a wide variety of maintenance, from complete "nose jobs" on 747s to maintenance of some US air force fighter engines.

While the bulk of Singapore's aerospace industry is concerned with repair and overhaul, various manufacturing processes are also being undertaken, from a Singapore-French-Chinese venture to design and manufacture a new light helicopter, to the building of cabin service carts.

Dr Otis Chen is managing director of Turbine Overhaul Services, a joint venture between state-owned Singapore Technologies and United Technologies/Pratt & Whitney. TOS employs 300 people repairing and upgrading aircraft jet engine turbine blades and vanes.

"This industry is a truly global one," says Dr Chen. "We're like a garage, with components coming in from anywhere in the world. It's evolving fast and you have to constantly upgrade to accommodate new technologies.

"At our end of the business we don't feel the draught from the troubles of the airline industry. We're working at full pitch and contemplating expanding. People are still flying, engines still have to be overhauled."

Tax incentives to high tech industries make Singapore attractive. The government provides a wide range of back-up services. But even in a region which is experiencing flyaway growth, the aerospace industry is highly competitive.

Singapore has to work hard to maintain its position against other fast-developing regional centres where labour costs are often considerably lower. There are problems of labour shortages and an insufficient supply of highly trained engineers.

China, viewed as an potential vast aerospace market, is a distance from Singapore. Significantly, Hong Kong Aircraft Engineering recently announced plans to move certain heavy overhaul facilities to China, both to tap into a low-cost labour market and to develop its China business.

"The aerospace industry in this region is on a very steep growth curve," says Mr Schmidt of the FAA. "If Asia Pacific governments can standardise their aerospace regulations and co-ordinate their traffic control systems, it will keep on expanding. There is enormous potential out here."

Kieran Cooke

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■ CHINA

Leapfrog in time

AT A time when the airline industry in the west faces a slump and aircraft orders are down, China's aviation market is booming and shows no signs of easing up.

"Its industry is growing much more than the US aviation business in the 1960s and 1970s, when the maximum growth rate was 12 to 13 per cent annually," says a western businessman. "China's growth rate is more than double that of the US."

China's passenger traffic volume rose more than 30 per cent last year over 1991, and it has averaged an annual 25 per cent increase since 1984. Domestic flights are consistently more than 80 per cent full.

Some business forecasts estimate that China will need to acquire 50 to 60 aircraft a year for the next three years to begin to meet demand. In a period of tremendous economic reform, China is modernising and restructuring its aviation industry. At the same time, to cope with the immense growth in passenger and cargo traffic, it is acquiring a wide variety of planes and equipment using an array of financing techniques, from leasing to barter deals to outright purchasing.

Three of the country's state-owned airlines have leased at least 16 Ilyushin 86s from the former Soviet republics. Under the terms of what is called a "wet lease", the foreign carrier supplies the aircraft, crews, flight attendants and technical support staff. The Russians are also bartering or selling Tupolev 154s. Though these aircraft require more frequent repairs and use more fuel, they are cheaper than their western counterparts.

China has also recently purchased 12 Airbuses from Germany, with options for 13 more in a $1bn contract.

Boeing is a major player in the China market. It is expected to deliver a total of 47 aircraft this year. The company signed an $800m order in the spring to sell 20 737s and one 757 to China. It is also negotiating to sell widebody 767 jets, which can carry 260 passengers, to China Southwest, and an advanced new 777 plane that can seat 390 people, which would go to Air China.

China has acquired nearly 200 Boeings since Mr Richard Nixon flew in one to Beijing in 1973 to begin the process of Sino-American rapprochement.

Other foreign companies are also negotiating to manufacture aircraft in China, but western sources said these discussions are on hold as the Chinese industry undergoes a reorganisation.

Saab-Scania has been talking with the Chinese about producing a turbo-prop commuter. Last year, Saab sold some 340s to China Southern. The French and Italians have also been competing to offer a similar 50-seater model, called an ATR, to the Chinese. Fokker is believed to be proposing its version of the turbo-prop.

Since April, the Ministry of Aerospace Industry has been dismembered. The aerospace functions are now handled by the China Aerospace Industrial Corporation, and the aviation and manufacturing arms are the responsibilities of the China Aviation Industrial Corporation.

Although both corporations are still government-owned, this change brings more decentralisation and a greater emphasis on responding to market demand.

With this restructuring, it is still unclear how much clout the aviation corporation has and to what extent it is able to compel Chinese airlines to buy domestically made jets. Many airlines prefer to purchase foreign aircraft, believing they get a cheaper and better quality product.

At the same time the ministry has been dismantled, the Civil Aviation Administration of China has also been broken up. CAAC now functions primarily as a regulatory agency, much like the Federal Aviation Administration in the US. It no longer retains control of the airports, though it still keeps authority over some aircraft purchase decisions.

In the face of the country's rapid economic reform, the number of airlines has mushroomed. At last count, China had 25 to 30 airlines. They can be organised into three groups:

□ The first category consists of six major state-owned regional carriers: Air China, China Eastern, China Northern, China Southern, China Southwestern, and China Northwestern.

These airlines can float bonds and shares, sign joint ventures, and create subsidiaries, but still need central government approval for aircraft purchases.

□ The second group includes specialised airlines, such as Yunnan Air, which CAAC controls directly. Despite provincial and local government pressure to ignore Beijing's directives, CAAC retains authority over these airlines so as to allocate routes.

□ The third category of carriers includes all of those owned by municipalities, provinces, and other shareholders. The largest of these airlines is Shanghai Air, which has three Boeings now and will have 13 of them by 2000. Xiamen Air in Fujian province is partially owned by China Southern, which is based in Canton.

With the decentralisation of the industry and the economic boom, a host of new problems has arisen.

Safety issues have often taken a back seat to expansion. China's safety record has been erratic. Last year, four publicly reported accidents claimed 276 lives. And in April this year, turbulence rocked a China Eastern flight to Los Angeles, killing two people and injuring more than 150.

China also faces a severe pilot shortage. Good pilots have left the major state airlines for smaller, local ones and much higher pay. Many of the country's airports have antiquated ground facilities, few radar systems, or none at all.

To improve its safety record, CAAC recently announced a crackdown. New airlines cannot be created unless they meet minimum capital requirements, have qualified pilots and adequate ground control equipment.

New regulations also prohibit pilots from flying overtime and from taking off or landing in bad weather. Safety inspections and spot checks are being stepped up. CAAC has also banned unauthorised pilot and technical personnel recruitment from one airline to another in the country.

"All of this will take time," a western business executive says. "China is trying to leapfrog to the latest available technology without going through the steps western countries have taken."

Lynne Curry

■ TAIWAN

A kid on the block

AFTER two years of courting international aerospace companies with a cash pile in inverse proportion to its knowledge, Taiwan Aerospace Company has finally arranged a deal which will give Taiwan an embryo civil aviation industry by the end of 1994, writes Simon Davies.

But the company has a long way to go before it can prove that money can buy anything. Mr Tsai Fen-doe, a former legislator and engineer of Taiwan's push into aerospace, admits: "Taiwan cannot say that in 10 to 20 years it will be a major competitor in the world aerospace industry. We would be laughed at."

Taiwan's vehicle industry provides an unfortunate precedent: it remains overprotected and uncompetitive. It has failed even to develop the capability for manufacturing engines. TAC also derives from a government decision that it should evolve from its low-cost manufacturing roots. The view is that Taiwan should develop capital and technology-intensive industries.

The aerospace push is being made via a company only 29 per cent owned by the government, to give it a more independent and competitive edge. Local companies were persuaded to put up the rest of TAC's T$1.2bn (£30m) start-up capital.

The group started with big ideas. As one aerospace expert claims: "They were sitting on top of a pile of money. But they hadn't manufactured one single part of a plane and they were under a lot of pressure to find a deal."

The first stop was McDonnell Douglas, where Taiwan Aerospace proposed to invest $2bn to develop a new generation of super-jumbo jets. But critics argued the world was not ready for this. Legislators succeeded in blocking the deal and forcing out Mr David Huang, the TAC chairman.

Mr Denny Ko, TAC's president, says there has since been a change in focus. "I have to strike a delicate balance between medium-term profitability and long-term investment. I have to walk a fine line." He argues that even in the best-case scenario, the McDonnell deal would not have reaped profits for more than a decade.

The $250m purchase of 50 per cent of British Aerospace's regional aviation business represents a more practical approach to Taiwan's ambition of an evolving aerospace industry. It appears to balance the strengths of the two partners. Taiwan has an abundance of capital, access to a booming market for short-haul transportation and expertise in aerospace assembly. British Aerospace has a product, but it lacks capital and an active marketplace.

One of the keys to the link-up is the fact that now Taiwan has gained access to foreign jet fighters, it no longer has any need for its Indigenous Defence Fighters, the jets that it developed when Beijing blocked foreign arms sales to Taiwan.

Mr Tsai argues: "You cannot separate the aerospace ambitions from the defence plan. Defence was always Taiwan's priority, but now we have F16s and Mirages, we have to consider how to utilise this excess manpower from defence."

The new RJ (which stands for Regional Jet) range will be manufactured in the Aero Industry Development Centre, taking up slack from the slowdown of the fighters assembly line. Mr Ko says the Defence Ministry has already agreed to lease out part of this operation for civil production.

The new production base is at the mouth of a potential goldmine of demand. Taiwan will produce its first RJ aircraft only by the end of 1994, by which time Taiwan and China may have agreed on direct flights across the Taiwan straits.

Economists expect that more than 3m Taiwanese will make the short hop across the Taiwan straits to China in the first year of direct flights, creating a market for small jets, such as the RJ. Even without this, Taiwan is in the centre of one of the world's few high growth aviation centres.

Mr Ko claims: "We are still a new kid on the block, and we have to prove ourselves. For the next two years, the industry has problems and we'll take the opportunity to learn. Then people can take us seriously."

They are already doing so. Sir Ralph Robins, Rolls-Royce chairman, recently visited Taiwan to discuss setting up a jet engine manufacturing operation for the development of a twin engine addition to the RJ series, to be called the RJX. TAC has also set up a maintenance joint venture with Singapore Aerospace, and may enter the helicopter industry.

Shareholders are currently being asked to increase TAC's capital base to its target of T$5.2bn. The government will take up its share, but some backers have been less willing to back the venture.

They have cause for scepticism. There is little precedent in Asia, where economic powerhouses such as Japan and South Korea have failed to develop a civil aviation manufacturing industry, beyond the production of individual components.

Taiwan has progressed beyond that, and Mr Ko is now looking to joint venture partners to produce key components for the RJ. But it will take time and money for this basic assembly line to evolve into a vertically-integrated aerospace industry.

■ HONG KONG

Plethora of airports

BY THE end of 1997, the delta of Southern China's Pearl River could be the focus of five new international airports. Hong Kong will vie with Macao, Shenzhen, Zhuhai and Guangzhou to lure the hordes of businessmen heading for the world's fastest growing region, writes Simon Davies.

Hong Kong had hoped to establish a monopoly role for itself, but the scope of its ambition is currently proving to be its undoing.

In 1994, Hong Kong's Kai Tak airport, now the fourth busiest in the world, will hit full capacity, at a time of boom for the Asia-Pacific aviation industry.

But the world's most expensive airport project, which was to have been a monument to the success of the British administration in Hong Kong, has instead become a symbol of the uncertainties represented by the colony's post-1997 government.

China is apparently unhappy at the $21bn price tag on Chek Lap Kok and related infrastructural projects, which compare somewhat unfavourably with Japan's $10bn Kansai Airport, and the $1.3bn expansion of Singapore's Changi airport. Without Chinese approval of the financing plan, it would become the world's most expensive white elephant.

The political stand-off has dragged on for a whole year. Surprisingly, millions of tons of mud have been displaced during that time and a vast artificial island has begun to appear, providing a platform for the airport.

The underlying logic is that since the airport was in principle agreed by Britain and China in 1991, work will carry on where possible, and eventually it will become cheaper to complete than to scrap.

Despite the delays, Mr Hank Townsend, the provisional airport authority's chief executive officer, argues that the June 30 1997 deadline for the opening of the new airport is still achievable. "My concern would be that as we approach this fall [without approval for the financing plan], the mid-June deadline becomes less probable," he said.

It seems impossible that it will open on time – the Chinese could be forgiven for wanting to host the ribbon-cutting ceremony for such a momentous project. But with Chinese officialdom stating that it wants the airport, it appears equally impossible that it will not be completed. More of an issue is the role the airport will have left to play once it does open.

Kai Tak has been a major beneficiary of the booming Chinese economy. Many of the 21m people who flew though the airport in 1992 did so because it is the only realistic means of access to southern China.

This is particularly galling for the Taiwanese. Under government regulations, they can visit China only via a third country. As a result of this, 1.64m Taiwanese visited Hong Kong last year, representing the largest individual source of tourists.

Inevitably, direct links will be set up by 1997, and Hong Kong is likely to forfeit a large chunk of this business, accounting for 23 per cent of all visitors last year. The loss of this business could coincide with the opening of a new Hong Kong airport with capacity for 35m passengers.

Another factor which will affect passenger demand for Chek Lap Kok is a rapid increase in local competition. In mid-1996, the Portuguese enclave of Macao will finally open its international airport. With a capacity of 2m, it is unlikely to leave a mark on Kai Tak, which processed 22m passengers last year. However, on the other side of the river, Shenzhen has greater ambitions.

It plans to process 3m passengers by the end of 1993 and already has capacity to take 8m, or almost one third of Kai Tak. At the same time, Guangzhou, the provincial capital city, is working on a replacement airport and Macao's neighbouring city of Zhuhai wants to get in on the game.

All this smacks of excess. Yet Mr Townsend argues that over-capacity is not an issue. "If you have the capacity, people will find a way to use it. The rapidly increasing standard of living is creating an enormous middle class. You are tapping a whole new segment of the market that hasn't existed before."

He is not alone in this opinion. Mr John Meredith, senior director of the International Air Transport Association, expects Asia-Pacific average passenger growth of 8.6 per cent between 1990 and 1995, and 7.5 per cent between 1995 and 2000.

"The proposed new airports in southeast Asia will be full by the time they come onstream. Asia-Pacific is set to outstrip the rest of the world in passenger traffic," he argued at a recent conference. Iata estimates the number of flights in the region will double in the next decade.

Hong Kong should play a major part in this boom. It remains the natural service centre for southern China because of its strength in infrastructure and communications. Its future must depend on its ability to provide what China needs, and the airport will be integral to this.

Aero-engine manufacturers are restructuring heavily, says **Paul Betts**

No let-up for the Big Three

THERE HAS been no let-up for aero-engine manufacturers. "We are undergoing the longest and most damaging recession we've ever suffered," says Sir Ralph Robins, chairman of Rolls-Royce, the UK aero-engine group.

"In some parts of the world, we don't know what kind of airline industry will emerge from this recession which has already taken some large airlines like Pan Am and Eastern out of the game. As for the defence business, it has not gone away for good, but what is clear is that it will be half the size it was," he adds.

The response to the steep business downturn of the three big aero-engine makers – General Electric and Pratt & Whitney in the US and Rolls-Royce in the UK – has followed a common pattern. All three have continued to restructure heavily. GE is cutting a further 4,000 jobs and Pratt another 10,000 jobs in the next 18 months. Rolls-Royce, whose aero-engine workforce has already fallen from 36,500 in 1990 to 29,500 at the end of 1992, is cutting another 5,000 jobs this year.

But while aero-engine makers have had to accelerate restructuring, they have also had to continue investing heavily in the development of new products and technologies to take advantage of the recovery when it finally comes and maintain their long-term competitive position in perhaps the toughest of all markets in the aerospace industry.

All three are in the throes of costly programmes to develop new large commercial engines to power the new generation of widebody aircraft. GE is investing heavily in the GE90, which reached a thrust level of more than 100,000lb during tests in Ohio this spring. Rolls-Royce is working on the Trent and Pratt on the PW4000 to build ultra-high thrust power plants.

The first application for these new engines will be the Boeing 777 twin engine widebody airliner and the Airbus A330

Manufacturers earn low margins for new engines and rely on the after-market for spare parts

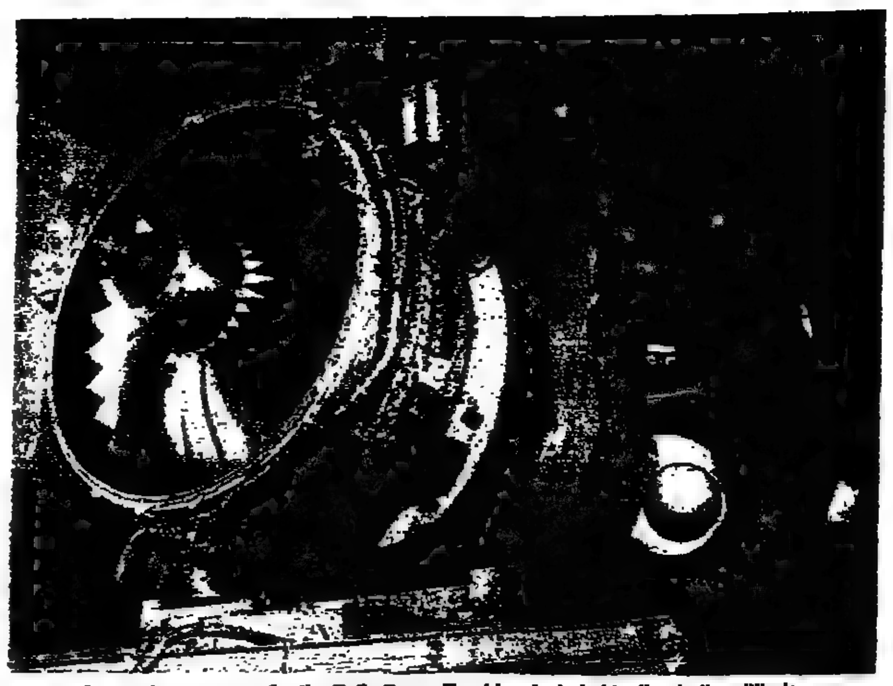
widebody twin. Although the initial 777s and A330s will not require anything like 100,000lb of engine thrust (the GE90, for example, will enter into service with its launch customer British Airways in September 1995 at a thrust rating of 78,700 lb), all three manufacturers expect demand for power to grow as twin-engine widebody aircraft become bigger in the future.

Apart from cut-throat competition to sell engines – and none has been fiercer than in the new large commercial engine market – the sector has traditionally faced far longer lead times for product development and profit recovery than other parts of the aerospace industry. Lead times have been steadily growing and have now stretched as long as 50 years for new engine programmes.

Rolls-Royce says it takes about 14 years to research and demonstrate a new technology and another 12 years to apply the results to a complete aero-engine product range. But as manufacturers traditionally earn low margins for new engines, they have to rely for their return on investment on the large after-market for spare parts over the 25-year service life of an engine. This matches the current expected life of a modern airliner which, according to Rolls-Royce, is at least 25 years.

Margins for new engines have also been squeezed by the present parlous state of airline finances. All manufacturers have had to increase the financial support that they provide to many of their customers to sustain sales during the industry's current three-year slump.

"We are not only having to give away new engines but we are now having to make deals with airlines on spare parts. That's how tough it is," notes Mr Brian Rowe, the head of GE's aero-engine operations who is expected to retire later this year.



The development programme for the Rolls-Royce Trent has included testing in the altitude chamber at the Ministry of Defence facility, Pyestock

During recessions, airlines fly less and require fewer spares thus putting pressure on the aero-engine manufacturers' lucrative spare parts business. But an additional problem facing manufacturers in the more profitable after-market sector of their business has been caused by the steady advance in engine technology. Rolls-Royce says the sharp improvement in modern engine reliability means that it now takes at least five to six years after the sale of a new engine before spare parts income starts to flow.

The huge costs and risks coupled with long lead times of developing new engines has forced manufacturers to rely increasingly on widescale international collaboration ranging from joint technological studies and licensing agreements to risk and revenue sharing partnerships and the setting up of joint engine companies.

Such partnerships have predominated on the civil side of the business which cannot rely to the same extent as military engines on government research and development support. GE and the French state-owned engine manufacturer Snecma have been collaborating for two decades on civil engines with Snecma holding risk-sharing stakes ranging from 10 to 50 per cent in GE civil engine projects.

Pratt has forged a strategic alliance with Motoren und Turbinen Union (MTU), the German engine manufacturer part of Daimler-Benz's Deutsche Aerospace subsidiary. Rolls-Royce has also been increasing its collaborative ventures with Japanese manufacturers taking a 7.5 per cent stake in the Trent. Rolls has also set up a joint company with BMW of Germany to develop engines for business, commuter and regional aircraft.

With development costs and competitive pressures constantly rising, smaller manufacturers are finding it increasingly urgent to forge new relationships or expand existing ones with the larger aero-engine groups. This is likely to lead to more consolidation of smaller companies into the big three.

Some aerospace analysts have even suggested that three big manufacturers are too many for the market to sustain and that one will eventually have to merge with a competitor. Sir Ralph believes the three majors will survive. "But I can't see a place for the smaller players," he adds.

David Fishlock finds Rolls-Royce worried by the level of its R&D support

The long search for a super fibre

ROLLS-ROYCE'S two big international rivals in the aero-engine business – General Electric and Pratt & Whitney – receive R&D support from the US government amounting to $760m a year, Sir Ralph Robins told a Commons select committee in March. The Rolls-Royce chairman complained: "There is no doubt that the level of US government support to its industry makes life very difficult for us."

His company has received about the same sum from the UK government as launch aid for civil aircraft, but spread over 21 years. Unlike the US support, launch aid is reimbursable. Rolls-Royce will pay back nearly £500m between now and the year 2001, Sir Ralph forecasts.

Mr Stewart Miller, Rolls-Royce's chief engineer and director of engineering technology, expands on his chairman's worries in respect of advanced aerospace materials. "After efficiency, materials are just as important as ever they were to the designer, and ultimately efficiency will be limited by materials," he says.

Essentially, the big engineering challenges are to drive pressures and temperatures higher and, at the same time, make the engines lighter. It is an obvious application for "simultaneous engineering" for the properties of the promising new aerospace materials are linked irrevocably to the way components are made.

Use of steel, for example, has been declining steadily from 60 per cent of engine weight in 1960 (the Tyne) to about 15 per cent today, and is still falling. Use of nickel has peaked at about 45 per cent and can be expected to fall sharply.

Three new types of material are expected to increase their "market share" rapidly. For lower temperatures they are the resin-based composites of the type Rolls tried but failed to introduce with its carbon-fibre fan blade in the 1960s.

For higher temperatures they are the metal matrix composites – metal reinforced with ceramic fibres – that promise to take weight out of rotating parts. And there are the ceramic matrix composites – "the big prize", as Mr Miller sees it. Ceramic matrix composites promise to eliminate the elaborate cooling arrangements now needed for high-temperature rotating metal parts. "But it's extraordinarily difficult," he admits.

Mr Miller confesses he has been guilty of undue optimism about when such materials will be ready to fly. Five years ago the company saw the challenge as a 10-year project, giving it a new engineering material by the end of the century. "It's going to take longer than that."

The core problem is corrosion: how, when running engines at 1,500 degrees C – the melting point of steel – to prevent the fibrous reinforcement from simply dissolving in its white-hot matrix. The answer is probably a protective coating for the fibre, to create a "super fibre" in terms of high-temperature strength and corrosion resistance. Identifying the combination that will eventually win a licence to fly is going to be a long and costly quest. Mr Miller is betting on coated alumina (aluminium oxide) fibres getting there first.

As there are no UK suppliers of super fibres, Rolls-Royce has had to join a Eureka research collaboration involving 30 European groups

But a big difficulty is that there are no UK suppliers of super fibres. The volume of business promised by Rolls-Royce is small compared with the scale of investment required, and the lead time to commercial use is long. This problem has driven Rolls-Royce into a Eureka pre-competitive research collaboration involving some 30 European organisations.

The first, four-year phase of this programme, starting this year, aims to identify a suitable coated fibre for service at 1,500 degrees C. Rolls-Royce is contributing about £0.5m, which will be backed pound for pound by the government. The obvious risk for the company – and Britain – is that results will be freely available to a rival aero-engine maker.

Rolls-Royce spends over £200m a year of its own on research, development and demonstration. Figures given by Sir Ralph to the select committee suggest three major sources of public support for its two US competitors:

- from the US Department of Defense's science and research budget – $400m a year;
- from research and demonstration programmes jointly funded by DoD and Nasa – $160m a year;
- from recovery of R&D costs by companies charging their R&D to the overhead account on contracts – $200m a year.

In France, says Rolls-Royce, the principal state support for civil aero-engine programmes is launch aid for Snecma, GE's state-owned collaborator. Snecma gets reimbursable loans amounting to £240m (1990 prices) over 10 years for the GE 90 programme, a direct competitor to Rolls-Royce's Trent.

In Japan, says Rolls-Royce, Miti has identified aeronautics as the most important "sunrise" industry of the 21st century. In 1983 the Japanese government launched a R&D programme involving about 170 companies to develop engineering ceramics. R-R believes this has given Nippon Carbon a commanding position in carbon fibre production and use. Japan began test runs of an industrial gas turbine made of ceramic components in 1990.

Its aim, says Mr Miller, is to develop an "all-composite engine". Its commercial goal is to supply advanced engine component technology, giving this the status of, say, avionic systems in future generations of aircraft. Two other companies – Nippon Chemicals and UBE Chemicals – are also concentrating on fibre development and manufacture for reinforcing composite materials.

Although Mr Miller acknowledges that the development of high duty composite materials is proving more difficult and expensive than was expected a few years ago, "our belief in the value of composite materials is as strong as ever it was.

"The weight savings are potentially enormous," he asserts. For example, it may be possible to design a composite compressor wheel with integral blades only half the weight of the metal version.

But where once sights were set on such critical parts as turbine blades, less critical components are now being targeted. Rolls-Royce participated in the Eureka programme, but Mr Miller believes that so crucial is advanced aero-engine materials technology that Britain should be prepared to pursue this one alone.

Last year Rolls-Royce proposed a national composite materials R&D programme involving its suppliers and universities, with government support of about £50m a year. The US government, says Mr Miller, spends more - $150m a year for composite materials R&D.

As Sir Ralph told MPs: "A new family of materials is coming to revolutionise aviation and its first application will be on engines." Unless Rolls-Royce remained at the forefront of composite materials technology the company risked losing out, its chairman warned.

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■ THE NETHERLANDS

Turning point for Fokker

EARLIER this year, Fokker, the Dutch aeroplane maker, gave up its independence. However, it gained a rich source of financial support and capital when it agreed to a 51 per cent takeover by Deutsche Aerospace of Germany.

The transaction, approved by the European Commission last month, marks a turning point in Fokker's 74-year history and comes after more than a year of controversy in the Netherlands. The long, tortuous negotiations between Dasa and the Dutch government, which had the power of veto because of its 32 per cent stake in Fokker's share capital, were complicated by emotional and political sensitivities that were inevitably raised by the sale of one of the country's premier industrial establishments to a big German rival.

Speaking just before he signed the final contract in late April, Mr Jürgen Schrempp, Dasa's chairman, acknowledged that "never in history has a substantial industrial marriage between the Netherlands and Germany worked." But, he added, "this one is going to work."

The link-up, designed to promote a restructuring of Europe's regional aircraft sector, comes at a time when both Dasa and Fokker are shedding jobs as they grapple with poor demand in the world market for new aircraft. Both companies have recently suffered a decline in profits.

But regardless of the short-term difficulties, the partnership is designed to be a long-term response to far-reaching changes in global aviation, including the trends towards mergers and consolidation among the airlines themselves. "The time of the national company is past," says Mr Erik Jan Nederkoorn, Fokker's president.

For Fokker, the attraction of the deal lies in the financial strength of Dasa, part of the Daimler-Benz industrial group.

Dasa has bought half of the government's 32 per cent holding and also acquired new shares in Fokker to lift its stake in a new Fokker holding company to 51 per cent. The share issue, plus a bond issue and long-term loans provided by the Dutch state, mean that Fokker will benefit from total proceeds of more than Fl900m ($500m), ensuring its future.

A first fruit of the Fokker-Dasa partnership was the recent decision by Fokker to appoint Mr Horst Steinberg, a senior vice president at Dasa's Dornier subsidiary, as the company's new head of sales in Asia and the Middle East.

For Fokker, the attraction of the deal lies in the strength of Dasa, part of the Daimler-Benz group

Mr Schrempp has suggested that Fokker may take on the marketing of Dornier's planes – a 19-seater and a 33-seater turboprop – but no decision has yet been taken.

Fokker and Dasa will face a difficult decision on when to design and build the Fokker 130, a 130-seater aircraft that is expected eventually to replace the Dutch company's current jet, the Fokker 100.

However, Fokker is close to a formal decision to launch the Fokker 70, a 79-seat jet. A prototype made its maiden flight in April, and the new aircraft is scheduled to be put on public display for the first time during the trade days of the Paris Air Show.

A central element in the contract regulating Fokker's future under Dasa's control is that Fokker will be responsible for the future design and production of aircraft in the 65 to 130-seat range. This stipulation enabled Fokker to argue that the company will remain a full-fledged aircraft manufacturer with a wide scale of activities ranging from engineering and production to sales and product support, thereby overcoming objections in the Netherlands to the deal.

Fokker also insisted on this "leadership" role in regional aircraft partly because Dasa had made clear from the beginning that it intends to bring in its two partners in the "Regioliner" design project, Aerospatiale of France and Alenia of Italy, as shareholders in Fokker, in effect turning the Dutch company into a four-way "Airbus" of the regional aeroplane market.

Aerospatiale and Alenia are expected to come on board in three years' time, when the Dutch government is due to sell off its remaining Fokker shares, ending state participation in the company. However, this future stage of the Fokker-Dasa deal is likely to face more intense scrutiny – and possibly objections – from the European Commission.

The expected four-way participation later this decade will also bring to a head arrangements for the future of the Fokker 50, a turboprop that competes directly with the ATR-42, a joint product of the Italian and French companies. Dasa has given no guarantees about the future of the Fokker 50, saying only that it will have to continue proving itself in the marketplace.

Ronald van de Krol

■ SWEDEN

JAS: real test is yet to come

AFTER A troubled development phase, the military side of Sweden's aerospace industry can at last boast a few successes. In April the JAS 39 Gripen multi-purpose fighter aircraft successfully undertook its 1,000th test flight, and this month the first aircraft is scheduled to be delivered to the Swedish air force, writes **Christopher Brown-Humes**.

For a programme that has fallen a year behind schedule and run well over cost estimates – and that at times looked as if it might collapse completely – these are tangible achievements. But the JAS needs to make a breakthrough into the export market to ensure commercial success, and so the real test is still to come. There was acute disappointment when the Finnish government opted last year to buy 57 new F18s from the US group McDonnell Douglas, rather than the JAS.

For the moment, the programme is underpinned by a healthy order book from Sweden's air force, with the final delivery not due until 2001. An initial order for 30 aircraft was supplemented last year by one for a further 110, which did much to cushion the blow of the lost Finnish order.

These domestic orders have provided the consortium manufacturing the JAS – Saab-Scania, Volvo Flygmotor, Ericsson Radar Electronics and FFV Aerotech (part of the Celsius defence group which is currently being privatised) – with a good platform from which to launch their drive for further business, both at home and abroad.

The manufacturers are hoping for further orders from the Swedish air force – possibly for as many as 150 aircraft – after parliament decided last year to maintain a fleet of 16 combat squadrons to meet the country's future defence needs.

Further, they project a worldwide replacement need of 3,000 military aircraft in the next 10-20 years (even allowing for reduced defence expenditure), with a possible market for the JAS of half that total. The aim is to capture orders for a third of the possible market – or 500 aircraft.

Whether the project turns out good value for its manufacturers is another matter. A real profits take-off will probably come only with export orders

This is an ambitious target and the JAS partners accept that they are unlikely to achieve it on their own. Hence far more emphasis is being placed on co-operation with foreign partners, specifically other aerospace groups in the US and Europe. In Europe, discussions have taken place with British Aerospace, Dassault of France and Germany's Dasa, although no concrete proposals have yet emerged.

If nothing else, these talks are a recognition of the fact that Sweden, with a population of just 8m, is going to find it difficult to maintain a viable aerospace industry on its own, for all its undoubted high technology expertise. The same thinking lies behind the government's decision to privatise the defence group Celsius where it is specifically hoped that private sector status will facilitate co-operation with foreign partners. In the military aerospace sector, it is considered unlikely that Sweden will ever again develop a new aircraft on its own as collaboration is seen as the only way to secure markets cost-effectively.

Saab Military Aircraft, part of Saab-Scania, is reluctant to identify the markets it is targeting, although countries in south-east Asia, Latin America and central and eastern Europe have all been mentioned.

Tough competition is likely from the American F16 and F18, Mirage 2000-5 and Mig 29 planes, which are all in a similar price bracket. However, in performance terms, its manufacturers say the JAS should be compared with the new generation of fighters, including the Eurofighter 2000, the Rafale and the F22.

Whether it turns out good value for its manufacturers is another matter. The project's delays and the fact that the first 30 aircraft were ordered at a fixed price are believed to have cost the prime contractor, Saab-Scania, heavily in the late 1980s. Some ground should be recouped with the second order, but a real profits take-off will probably come only with export orders.

One of the arguments that is thought to have persuaded the Swedish government to persist with JAS is the spin-off effects for the country's civil aviation business, which is also centred on Saab-Scania. The commercial side of Sweden's aerospace industry has developed successfully, but because of the downturn in world market conditions, new orders for Saab aircraft have not materialised as quickly as anticipated, and some have been cancelled.

The civilian side of the company's air business is concentrated on two aircraft – the 35-seater Saab 340 and its bigger sister, the Saab 2000, which can carry 50 to 58 passengers. Test flights for the latter began only last year, and the first customer delivery is scheduled for this autumn.

A breakthrough came in the early part of the year when a Chinese airline agreed to buy five Saab 2000 aircraft this year, and took options on a further 15 for delivery in 1995 and 1996. But many more such orders will be needed to recoup development costs.

Saab Aircraft, which comprises Saab Military Aircraft and the commercial aircraft operations, made a profit of SKr163m last year, or 8.7 per cent in pre-tax returns on capital employed. That is slightly above the SKr150m recorded in 1991, even though sales fell to SKr3.92bn from SKr4.93bn. Even so, it is well short of what the company hopes to achieve in the late 1990s if foreign orders for the JAS and Saab 2000 come flooding in.

■ ITALY

Future products are a puzzle

IT HAS BEEN an *annus horribilis* for Italy's aerospace industry. Demand for military and civil aircraft has plunged, there have been allegations of corruption over helicopters, and the need for restructuring to bring capacity in line with demand has become ever more apparent, writes Haig Simonian.

The impact has been shared equally between Alenia, the leading aerospace group, Agusta in helicopters, and smaller makers such as Piaggio and Aermacchi, in both of which Alenia has significant minority stakes.

Moreover, there has been a corporate upheaval among the two main manufacturers. Alenia, formerly a listed subsidiary of the state-controlled Finmeccanica engineering group, itself controlled by the Iri state holding company, has now been incorporated as an internal division, as part of a plan to increase the share float of Finmeccanica.

Meanwhile, the fates of Agusta and the Oto Melara missiles group have been called into question after last July's government decision to place the loss-making Efim state holding company in voluntary liquidation. Various Efim aerospace and defence assets have been "rented" to Finmeccanica at a token price pending a longer-term solution, which probably involves their incorporation into Alenia.

On the defence side, Italy's 30 per cent cut in real terms in military spending has disrupted production targets, resulting in a halving of output of Alenia's MX tactical support aircraft, produced jointly with Brazil, to two a month from four as planned.

From a forecast of 350 aircraft, production now looks unlikely to exceed 200, of which 136 have so far been ordered by Italy and 59 by Brazil. That gives Alenia enough work until 1995, after which matters become much less clear.

Originally, the termination of the MX programme was to have dovetailed with the start of production of the multilateral European Fighter Aircraft programme. But, as Mr Fausto Cereti, Alenia's joint president explains: "This programme has so many enemies that it's going forward much more slowly than expected."

Alenia's problems on the military side are common to other European producers. Rising government budget deficits and continuing uncertainty over future defence needs have led to sharp sending cuts. "It has become much more difficult to understand what will be the products of the future," says Mr Enrico Gimelli, Alenia's other president.

Matters are no happier on the civil side. Production of the ATR regional turboprop, made jointly with France's Aérospatiale, has not reached expected targets because of the downturn in demand. "We had hoped to reach an output of 65-70 planes a year by 1994," says Mr Gimelli. "Instead, it's running at about 50 a year."

In Europe "the real crisis is just beginning"

Alenia executives deny the ATR programme, which has received 540 orders and options, is still losing money. Production is now around break-even, says Mr Gimelli, who blames continuing difficulties on price-cutting from competitors with big backlogs of unsold planes. However, he admits the drop in demand has held up plans to develop the ATR further.

The group, which is a big sub-contractor for both McDonnell Douglas and Boeing, has also been hurt by the plunge in the US market. Mr Gimelli is cautious about signs of a possible upturn after recent airline orders. "It's too soon to say there's a recovery in the US, as carriers there are very sensitive to seasonal developments. We'll have to wait until the summer season."

But he is pessimistic about the outlook in Europe. "I think the real crisis is just beginning." European carriers may have been more cautious in ordering new aircraft than some US counterparts, and the market may still be in slightly better shape as deregulation-driven competition has not gone so far. But the impact of falling demand remains acute.

Even Alenia's successful electronics side has had its share of difficulties lately. Although orders have been maintained and the business is doing well, the company was dragged into an undesirable spat earlier this year after winning a Mexican air traffic control order jointly with Thomson of France.

The award of the deal led to accusations of unfair play by the two companies which led the international ATC field. The case is still rumbling, but Alenia takes comfort from the fact that IBM, one of the losing parties, distanced itself from the charges levelled by a local partner. "It often happens that competitors claim the two market leaders are too strong," says Mr Cereti.

While denying the Mexican spat has hurt its image, Alenia says this year's two-month strike over job losses at its Naples plant has proved costly, financially and in terms of prestige. The dispute, resolved after a compromise on relocating 2,000 of the 5,000 workers first scheduled for redundancy, led to nail-biting moments as the group saw supply deadlines to US manufacturers looming.

Alenia widely publicised the pressure levelled by big US clients to persuade employees to return to work. But the company denies the US threats of taking future business elsewhere was just a bluff. In the worst case, crucial parts for one US manufacturer were delivered just a day before the contract deadline, recalls Mr Cereti. "We became Japanese-style just-in-time suppliers without really wanting to," he admits.

"Obviously, clients were getting worried. We were lucky in that the market was in recession, so production lines never had to be halted because of us. But these things leave lingering doubts, and our clients are bound to wonder what might have happened had the strike taken place when the market was in an upturn," he says. "Customers may have some sympathy for our efforts to slim down the company. But now we'll have to work hard to show Naples is a credible plant."

■ SPAIN

Casa given a capital tonic

TOM BURNS on the fortunes of the state-owned group

CASA, Spain's state-owned aerospace group, echoes the sector worldwide in saying the industry is going through its bleakest period for a long time but at least it has something to smile about.

In February the Instituto Nacional de Industria, the state holding company which owns Casa, or to give it its full name, Construcciones Aeronauticas, finally agreed to a Pta42.3bn ($352m) capital increase. For several years fresh capital had been a priority and its arrival gives the balance sheet strength the company had formerly lacked.

Last month a second boost, every bit as important, materialised when the industry ministry unveiled a Pta120.1bn investment plan, spread over six years, for the domestic aerospace sector. This has the approval of the European Community which has undertaken to supply favourable credit lines.

Two-thirds of the plan is targeted at two of Casa's biggest undertakings: the Airbus programme and development of a fast turboprop passenger aircraft, the Casa 3000.

The industry ministry's decision to back the aircraft came just a few weeks after Casa had determined to proceed with its design and building. The group's commitment came after nine months of exhaustive feasibility studies with prospective customers and operators. These identified what Casa believes is a niche in the market.

With a cruising speed of 350 knots at altitudes up to 31,000 feet, the Casa 3000 will have a range of more than 1,000 nautical miles with a full payload of 70-78 passengers. Designed for the regional air transport market, it will be built over the next four years and the company believes it will prove the most economical replacement for small jets operating low-density routes.

Casa says it will provide block times similar to jets, at a spectacularly low operational cost. However, the big selling point is that it provides jet comfort at turpoprop costs in both hub-and-spoke and point-to-point operations.

The aircraft's combination of speed and short turnaround time ensures, according to Casa, a high operational flexibility and marked improvement in productivity over conventional and slower turboprops.

Casa has nailed its colours to the inter-regional traffic mast. That is a sector it knows well through its existing aircraft, the C-212 and the CN-235 and in which it has built up further expertise through co-operation in the Saab 2000 programme.

Like Saab and other aerospace companies, Casa has made projections for the growth of inter-regional traffic. It foresees European traffic growing at a rate of 4.9 per cent between the years 2000 and 2009, an increase of 6.9 per cent over the same period in Asia and the Pacific region and only slightly less in the American market.

The Casa 3000 programme could not have come at a better time for the company. In recent months it has been in turmoil over the debate on the future of the Airbus consortium and European Fighter Aircraft (EFA) programme.

A founder member of both multinational projects, Casa has placed a lot of importance on their continued progress. The company's space division may well have further cause for gloom if cuts and cancellations are implemented as a result of reassessment of the European Space Agency, particularly the future of the Columbus and Hermes programmes.

Casa's maintenance division, a money-spinner for years, has also been hard-hit. Spain's defence ministry has scaled back its requirements because of big budget cuts and, worse still in psychological and income terms, the US Air Force has ended a maintenance contract that Casa had for F15 combat planes since the 1960s.

Despite these difficulties, the group had a reasonable financial year in 1992. In part, that was due to an increase in sales from Pta87.4bn to Pta91.8bn. Casa was also able marginally to reduce its labour force and annual income per employee rose from Pta9.9m in 1991 to Pta10.7m last year.

In 1991-1992 some 300 jobs were shed from the total of 9,338 and the company is now in the process of losing 450 through voluntary early retirement. This second round of lay-offs is likely to be followed by a third but it is an expensive business, adding Pta3.3bn to extraordinary costs this year.

To a far greater extent, however, the 1992 results benefited from a 46 per cent drop in financial costs to Pta7.3bn. As a result, Casa reduced 1991 losses of Pta6.9bn to Pta3.5bn last year.

This year, after seven years in the red, the group hopes to break even. The improved balance sheet after the capital increase will no doubt help to bring that objective within reach. The company is also set to benefit from successive devaluations of the peseta. The dollar, responsible for about 80 per cent of business, has revalued by about 20 per cent against the domestic currency in the past year.

David White on the advantages of collaboration

Eurofighter goes ahead

THE EUROFIGHTER will have taken at least 15 years to come into service from the time Britain, Germany, Spain and Italy agreed in 1985 on the basic characteristics of a joint aircraft.

The most broadly based collaborative fighter project ever attempted in Europe, it will have been through several changes of identity in the process.

The European Fighter Aircraft programme was relaunched last December, briefly as the New EFA and then as the Eurofighter 2000, but the partners are still looking for a more inspired name. The rechristening was mainly a way of enabling Mr Volker Rühe, Germany's defence minister, to save face after campaigning to stop the £32bn project and replace it with a cheaper and less sophisticated aircraft.

Although revised and subjected to a cost overhaul, the fighter is essentially the same that aerospace companies in the four nations have been developing for the past six years, with allowance for different versions to take into account the partners' different visions of what they want the aircraft to do.

Details of the changed programme have taken longer than expected to sort out. The December agreement in Brussels, in which Germany in effect rejoined the project, was heavily publicised. But when junior ministers met in Bonn in April to agree on the new programme outlines, the event went unannounced.

Although new military requirements are now set and a new schedule is in place – leaving production decisions until after the next German elections in 1994 – many questions have still to be resolved.

The flight control system's costs are reckoned to have gone up 60 per cent because of contract changes

These include Germany's share in production. It has so far taken 33 per cent of development work, based on an original expectation that it would buy 250 of the aircraft. The current working assumption is that it will buy 140. Together, the number due to be produced for the four partners has shrunk to about 600 from the initial figure of 765.

New memorandums of understanding and industrial contracts have still to be signed. Further problems could emerge if, for instance, Germany decides to instal a cheaper radar of its own choice, instead of the GEC Ferranti-led ECR90, which is halfway through development, industry experts say the implications of having to integrate two different radars into the aircraft "could be horrendous".

Technical problems, including the generator and the flight control system, have already caused serious delays. The first prototype, assembled in Germany, is not due to fly until September at the earliest – two years late.

Last year's crisis over German participation blew up after the industrial consortium, Eurofighter, submitted its price quotation for the production phase. In their review of the programme, the partners identified potential savings of between 12 and 23 per cent on the cost of producing the aircraft and setting up logistic support. Nevertheless, costs are substantially higher than originally expected.

The UK has confirmed that its estimated total share of the programme stands at £13bn at today's prices compared to the "£6bn to £7bn" stated by the government in 1988, a difference which can be partly but not wholly attributed to inflation.

The Ministry of Defence says that its projected cost in 1987 was in fact £7.8bn and that it was then planning, unbeknown to anyone, to buy 200 aircraft rather than the officially-declared 250. It has now reaffirmed its intention to buy 250. Allowing for this difference and inflation, it says, the cost overrun is £1.1bn. Programme managers add that these estimates are no more than an indication, in the absence of any production contracts.

However, the cost of development has also increased in real terms, despite a regime of fixed, inflation-adjustable prices. The UK share, 33 per cent of the total, was stated in 1988 as £1.7bn. It is now put by British Aerospace, the UK partner in Eurofighter, at roughly double that figure.

One example of how prices can escalate is the flight control system, where costs are reckoned to have gone up 60 per cent because of contract changes. The system comes under the overall charge of Deutsche Aerospace, the German Eurofighter partner. GEC-Marconi of the UK, responsible for the critical software input, found that the processing power provided for was inadequate.

Some of the functions of the system are due to be dropped to enable the first flight to place and to be incorporated at a later stage.

Development costs will also rise as a result of the rescheduling of the programme, with the first aircraft not due to enter service with the British and Italian air forces until 2000, two years later than previously envisaged, and the Germans and Spanish not scheduled to take delivery of theirs before 2002.

The partner governments have accepted in principle that terms should be revised upwards for Eurojet, the engine grouping of Rolls-Royce, Fiat, MTU of Germany and ITP of Spain, recognising that the consortium will now have to support a longer test programme.

Eurofighter, responsible for the aircraft itself, is held to be in a different position since it is behind schedule on the programme. But it has also sought an increase, with Mr John Vincent, its managing director, insisting that "if you are going to stretch a given programme, it is going to cost you money."

On the German side, it has not been clear where payment for the current development work will come from. The funding requirement for this year, including outstanding bills left from last year, was about DM1bn, but barely half of this has been forthcoming. The expected outcome is that Dasa itself will provide the interim finance, since the other partner countries were not ready to bridge the gap.

Hopes that some had vested in the project as the foundation of a new European military aircraft venture have been set back by the arguments of the last 12 months. Dasa has actively promoted the idea, hoping to draw the French into a Europe-wide enterprise. "As a vision we really see it," says Mr Harmut Mehdorn, new head of Dasa's aircraft group.

The first step was to be a merger between the programme's administration and that of its European forerunner, the Anglo-German-Italian Tornado. This involves joining Eurofighter with the Tornado company Panavia and fusing the two intergovernmental management agencies, known respectively as NEFMA and NAMMA.

A merger was to take place last year, but Mr Vincent says he advised delaying it when the political difficulties surrounding Germany's participation in Eurofighter erupted.

For all the problems and tensions, however, the partners are firmly committed to the programme. Even before it takes off, Eurofighter provides a clear demonstration of at least one advantage of collaborative projects: that they are extremely resistant to attempts to kill them off.

The Eurofighter 2000: the first prototype was built by Deutsche Aerospace at Manching, Germany

Restructuring in the US and Europe creates new giants

Weapons guided to mergers

ON BOTH sides of the Atlantic, the guided weapons industry is in mutation.

The announcement that British Aerospace and Matra of France have been negotiating a missile merger is expected to spur wider restructuring of the sector in Europe, based on one or two major groupings.

In the US, further consolidation is also expected after the purchase of General Dynamics' missile interests – including such familiar products as the Stinger ground-to-air weapon and the Tomahawk sea-launched cruise missile – by General Motors' Hughes subsidiary last year.

The takeover has created a second giant in the US and world league alongside Raytheon, producer of the Patriot missile which became a household word in the 1991 Gulf war. Also in the last year, Loral took over LTV's missile business after acquiring Ford Aerospace in 1990.

The number of competitors is likely to be further reduced in a climate of tighter defence budgets.

However, Mr Dan Tellep, chairman and chief executive of Lockheed, maker of the Trident nuclear missile, warns: "Size, of itself, is not a guarantee of success." He believes companies can still survive in niche markets.

The BAe-Matra plan took shape after BAe abandoned efforts to forge a missile merger with Thomson-CSF, the French electronics company, in 1991.

The joint venture plan, expected to be completed early next year, will create a company with annual sales of more than £1bn. This would be several times more than any other European company in the field, and if others were brought into the project could surpass the leading US manufacturers in missile sales.

The door has been left open to Aérospatiale, now due for privatisation, and Deutsche Aerospace, the Daimler-Benz subsidiary. These two have already been talking about deepening their 20-year association in Euromissile, the joint venture responsible for the Milan anti-tank weapon and the Roland ground-to-air system.

The question remains, however, of where Thomson-CSF would fit in the French scheme of things. The announcement of Matra's plans with BAe came shortly after Thomson-CSF linked forces with Short Brothers in very short range air defence weapons. This was a direct challenge to Matra.

A further question concerns GEC-Marconi, traditional supplier of guidance systems for UK missiles. It was at one stage thought likely it might absorb BAe's Dynamics division. However the latter's sagging fortunes took a turn for the better last year, particularly when it won the UK contract for a short-range air-to-air missile – ASRAAM – against a rival project by GEC-Marconi and Matra.

Matra and BAe hope to strengthen their presence on world markets with largely complementary product lines. The main area in which their products overlap is medium-range air-to-air missiles. But the two could combine efforts in this sector to field an alternative to Hughes' AMRAAM to equip the Eurofighter 2000. BAe is already working with Saab of Sweden on a new generation missile in this category, and has been looking at using a Thomson-CSF seeker.

BAe could also back up Matra's bid to sell its Apache air-to-ground weapon to the UK. Competitors are likely to include Hughes, with a version of the Tomahawk, McDonnell Douglas, Aérospatiale and GEC-Marconi with a weapon that Abu Dhabi has so far paid to develop. BAe does not have its own product to enter into the competition.

Two other major UK projects are potential victims of the government's current budget review. A new air defence programme to replace the obsolete Bloodhound missile may be cancelled or staggered, and a £3bn nuclear missile plan for the RAF could well be abandoned. In this climate, companies are counting to a greater extent than ever before on overseas markets.

David White

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Tough talking in Geneva

There is going to be some tough bargaining in Geneva today. Opec ministers are meeting there to negotiate a new production quota for the third quarter of this year and oil prices have weakened in the run-up to the gathering in the expectation that the producing cartel will continue to exceed its self-imposed production ceiling, writes David Lascelles. Page 28

Cuts hurt Tata steel unit

TATA Iron and Steel (Tisco), the flagship company within India's giant Tata group, reports a 40 per cent drop in net profits for the year ended March. Mr Ratan Tata, chairman, said India's steel industry slipped into recession last year after being hit hard by government spending cuts. He forecast prospects would pick up this year as the economy revived, and if government spending on construction projects rose. He hoped to maintain this year's dividend. Page 22

Emap plans £5m expansion

Emap, the UK publishing group, plans to spend £5m launching new magazines in motoring, music and other leisure activities, after raising profits 56 per cent in the year just ended. Mr Graham Ross-Russell, chairman, said the company was "not expecting much assistance" from the economy in the year ahead. Page 24

Field profits float 23% higher

Field Group, the carton maker, announced a 23 per cent rise in operating profits in the pathfinder prospectus for its flotation later this month. Much of the £90m raised will go to pay off debt incurred in the company's management buy-out from SCA, the Swedish paper and packaging group. Page 24

Market setback for Finns

Finland's stock market, best performer in the FT-Actuaries World Indices so far this year, took a tumble last week. Brokers still expect the market to do well, however, since companies' interim results, out this month, will reflect a big boost from devaluation. Page 34

Shephard gets show on the road

She is the daughter of a Norfolk smallholder and cattle dealer – parentage that will stand Gillian Shephard, the UK's new minister of agriculture, in good stead as she seeks to win the confidence of Britain's farmers. In her native county at the weekend she made the first policy speech of her administration at the weekend. David Richardson reports on reaction. Page 26

ABSA earnings grow by 12%

AMALGAMATED Banks of South Africa (ABSA), the country's largest banking group, increased earnings per share by 12 per cent to 121 cents in the year ended March. It was the bank's first year of trading in its current form, after two large mergers in 1991 and 1992. Page 22

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Daimler-Benz	573.5	+	11.5
Holzmann Ph	960	+	20
Lahmeyer	630	+	20
Mercedes	582	+	10
Veba	285	+	7
Falls			
DLW	414	–	10
NEW YORK ($)			
Rises			
Intel	56¾	+	2¾
Parker Parsley	29¼	+	2⅝
Repligen	6¼	+	¾
Falls			
Advanced Micro	23⅝	–	4⅝
Arrow Elec	6⅝	–	⅝
Citicorp	26⅝	–	1⅛

PARIS (FFr)			
Rises			
Air Liquide	731	+	23
Elf Sanofi	984	+	33
Fonc Lyonnaise	600	+	25
Immobanque	750	+	13
Falls			
EBF	615	–	10
UFB Locabail	264	–	8
TOKYO (Yen)			
Rises			
Fukusuke	695	+	80
Nippon Zeon	605	+	11
Olympus Optic	1290	+	10
Falls			
Nitto Elec	1830	–	120
Shinton	915	–	75
Toyo Elec	781	–	34

New York prices at 12.30.

LONDON (Pence)			
Rises			
ADT	628	+	20
Acorn Computer	105	+	9
[illegible]	106	+	6
Brit Aerospace	[illegible]	+	17
Cullens	19	+	4
Dwyer A	61	+	9
Fairline Boats	270	+	20
French Connctn	79	+	7
Gardner (DC)	[illegible]	+	7
Grassby	167	+	10
Hartstone	45	+	5½
Jacques Vert	85	+	9
Lambert Howth	385	+	40
Nu-Swift	[illegible]	+	38
Oriflame Intl	226	+	11
Peel Hldgs	210	+	12
Phonelink	250	+	17
PowerGen	368	+	12½
SelecTV	24½	+	2½
Sleepy Kids	35	+	4
Southend Prop	82	+	5
Wilkes (J)	88	+	8
Falls			
Jeyes	317	–	122
Simon Eng	37	–	9
[illegible]	72	–	5
Trafalgar Hse	108	–	4

Solvay tells of 'severe buffeting'

By Andrew Hill in Brussels

SOLVAY, the Belgian chemicals group, warned yesterday it would record a loss for the first half of this year, dragged down by over-capacity, recession and alleged unfair competition in the European plastics sector.

Baron Daniel Janssen, Solvay's chief executive, told shareholders that the group was getting "a severe buffeting from the European storm".

He said the plastics sector in particular would suffer "heavy losses" in the first six months, which would not be offset by earnings from the group's other activities.

The outlook for the full year was "not good", Baron Janssen added, although there were "some small signs of improvement" in the US, Britain and Brazil.

He said Solvay expected to be able to maintain the same dividend policy for 1993, that is, "to increase our dividend whenever possible and, if possible, not to decrease it".

Solvay directors again urged the European Commission to take action against cheap imports of soda ash and PVC from eastern Europe and the US. Solvay has lodged formal requests with Brussels for protection against unfair competition.

Mr Yves Boël, the group chairman, told shareholders that Solvay was "disturbed by the Commission's relaxed attitude in the face of such blameworthy practices".

Net profits slipped by 13.5 per cent in the first half of last year to BFr5.88bn ($176m) and in the full year profits fell from BFr11.7bn to BFr9.76bn. Shareholders yesterday voted to maintain the 1992 dividend at BFr500 a share, the same level as in 1990 and 1991.

The impact of recession – particularly in the principal activities of soda ash and plastics – has forced the company to take drastic measures. These include the closure of its 129-year-old Belgian soda ash plant announced two weeks ago, and the probable shutdown of another soda ash factory in west Germany.

Workers from the Belgian plant protested against the decision at yesterday's annual shareholder meeting, urging the Solvay board to stop the "jobs massacre".

The closures would reduce Solvay's soda ash capacity by 10 per cent, but also end annual losses of about BFr1.6bn at the two plants.

Paying the price for never saying 'no'

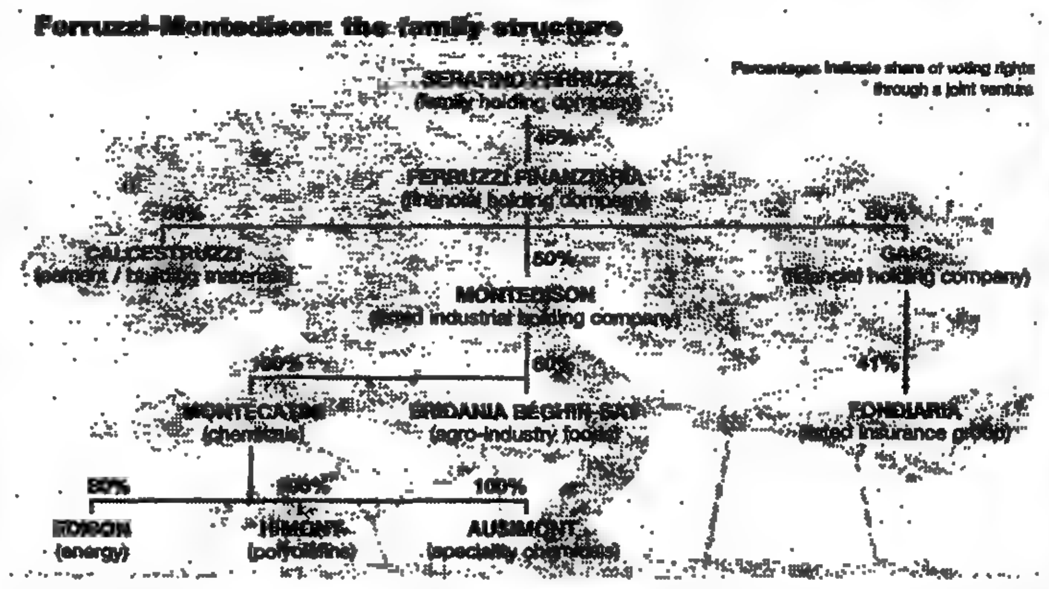
Haig Simonian reports on the debt problems facing Italian group Ferruzzi-Montedison

FERRUZZI-MONTEDISON, the Italian chemicals, energy and agro-industrial group, which recently reported record losses, is facing the most testing fortnight in its history.

It is negotiating the restructuring of its L15,123bn ($10bn) borrowings, a deal which could involve Italy's first debt for equity swap. Under new rules proposed by the Bank of Italy, the creditor committee of five banks, headed by Mediobanca, may seek to convert some of the loans into shares.

Action is urgent to stop Ferruzzi-Montedison buckling under the weight of debt and losses. Ferruzzi Finanziaria (Ferfin), the holding company, lost L1,519bn ($1bn) last year, compared with net profits of L115bn in 1991. Montedison, its main operating subsidiary, lost L1,244bn against net profits of L168bn.

Ferruzzi-Montedison: the family structure




Carlo Sama: handed the baton

The Ferruzzi family has promised radical changes. Serafino Ferruzzi, the holding company wholly owned by the family, will let in outside capital, heavily diluting the family shareholders. Ferfin and Montedison will be forced into big disposals.

"Ferruzzi-Montedison's problems are a tale of empire building, based on an inability to turn down acquisitions, irrespective of their effect on debt, and to cut investment, even when cash flow is crumbling," says one analyst.

The group is Italy's second biggest private-sector company, with revenues of L19,900bn last year. It has mushroomed from its origins in farming and commodities trading. When the founder Serafino Ferruzzi died in 1979, leadership passed to the charismatic and domineering Mr Raul Gardini. He led it into chemicals (Montedison), cement (Calcestruzzi), insurance (Fondiaria) and a string of other operations, including a barely profitable national newspaper (Il Messaggero) and a heavily loss-making TV station (Telemontecarlo).

The takeovers created an increasingly indebted conglomerate, with too few synergies and too little management talent. The strains were masked by the booming 1980s, but became impossible to hide in a recession.

Mr Gardini left in a huff in November 1990 after failing to receive the family's blessing for a buy-out of the government stake in the Enimont chemicals joint venture. Belatedly, the family saw the group must slim.

The baton passed to Mr Carlo Sama, a senior executive married to one of Mr Serafino Ferruzzi's daughters. But time was running out. Mergers were out of fashion; potential buyers were harder to find in a recession; earnings had started to dive.

Negotiations on the disposal of the Erbamont pharmaceuticals operation, mooted last summer, were strung out for months as Sweden's Procordia haggled over the price. It took a 51 per cent stake two months ago. Such are Montedison's cash needs that the remaining shares, not expected to be sold until 1994 or so, were passed to a bank intermediary to raise funds sooner.

A big plastics joint venture with Shell has still not been finalised. The transaction, now possibly nearing completion, involves pooling the two companies' plastics interests, including Montedison's US-based Himont subsidiary. Separately, Ausimont (speciality chemicals) and Calcestruzzi may also be sold.

The Erbamont deal will cut group borrowings by about L1,900bn while the Shell joint venture should shift a further L2,000bn off Ferruzzi-Montedison's books. But so great are the pressures that even Edison, which has invested heavily in new electricity generating capacity, may be on the block. The company reported net group profits up 25 per cent to L152bn last year. The disposals will return Ferruzzi-Montedison to its agro-industrial roots, with Eridania-Béghin Say its main business, plus some chemicals activities.

Ferruzzi executives claim the disposals will mark the line behind which they will defend the rest of the group. But claims that Fondiaria, Italy's third biggest private-sector insurer, is an integral part of the empire are unconvincing.

Fondiaria is controlled jointly by Ferfin and the family of Mr Camillo De Benedetti, who died earlier this year, through the Gaic holding company. Ferruzzi has already started to flex its muscles there. Fondiaria plunged into a L580bn loss last year on the back of misjudged foreign expansion. But Mr Alfonso Scarpa, the managing director who had guided its foreign growth, has now left the company. And soon after, Fondiaria sold its 21 per cent stake in Aachener und Münchener Beteiligungs, Germany's second biggest insurer, for DM985m.

Observers are uncertain whether Ferruzzi's exertion of control over Fondiaria, now chaired by Mr Sama, is an attempt at a turn-around or a preliminary to disposal.

Last week, analysts welcomed the company's rosy portrait of its long-term future. The shares were briefly buoyed up by that vision and by rumours that Mr Sergio Cragnotti, a former managing director now running his own financial group, might return in some unspecified role. They have since fallen back, and yesterday Ferfin closed below its nominal value.

Short-term prospects for Ferruzzi-Montedison remain grim. Although first quarter operating profits rose, the chemicals sector shows little sign of improvement. And still the acquisitions continue: Eridania-Béghin Say is bidding for part of the Italian SME foods group now being privatised. Some habits die hard.

FONDIARIA, the Ferruzzi empire's insurance group, is now thought to have debts of about L2,000bn, much more than formerly believed. The debts stem from Fondiaria's investment in AMB, Germany's second-biggest insurer, and expansion into hotels and clinics in Italy.

Fondiaria plans to cut debt by asset sales. Talks are under way on selling Banca Mercantile, a 13-branch Florence-based bank owned jointly with Ferruzzi.

Details, page 20.

Gehe lifts bid for France's OCP

By David Buchan in Paris

THE BIDDING war for Office Commercial Pharmaceutique (OCP) hotted up yesterday when Gehe, the German drug distributor, raised its offer for France's largest drug wholesaler, to nearly 17 per cent above a French-American bid.

In one of the very few recent contested takeovers in France, Gehe is offering FFr 985 a share in a full bid for OCP, which is now worth FFr 2.6bn ($480m). Dr Dieter Schadt, Gehe's president, said "the very high price" reflected his company's desire to "shorten the process", started by Gehe with its first bid of FFr 800 a share in February.

Gehe, however, was not confident yesterday that its bid would knock out the rival bid mounted by Cooper, a French pharmaceuticals company, in alliance with Bergen Brunswick of the US. "Both sides have a lot of ammunition," said Dr Dieter Kammerer, Gehe's vice-president. He said a third bidder could not be excluded. He noted that McKesson, the large US pharmaceuticals wholesaler, had shown interest in getting into Europe.

Gehe's first bid was disallowed by the French courts because of an arrangement between the German company and Mr Jean-Pierre Duché, a former president of OCP who runs the French company's operational distribution units of Eurosanté and OCP-Repartition. The court ruled that the arrangement was unfair because it would have denied the Franco-American consortium effective management of OCP even if it gained the shares. As a result of the court ruling, any successful bidder for OCP has been promised effective control of the entire operation.

There was no word last night on whether Aura Expansion, the bid vehicle of Cooper and Bergen-Brunswick, wants to improve its FFr865-a-share offer, which runs until June 28.

Gehe said if it got OCP, it would bring its German drug wholesaling operation, which has 18 per cent of the German market, under OCP. The new groupwould function as a European unit.

Gehe executives said they planned to recoup their investment in OCP by using their computer know-how to improve margins. Drug distribution is highly complex in France and Germany because it requires serving thousands of individually owned pharmacies several times a day.

PowerGen indicates big dividend increases

By Michael Smith

POWERGEN, the electricity generator, yesterday announced a change in its dividend policy which could spell annual rises of at least 15 per cent.

It also declared an 18 per cent rise in pre-tax profits to £425m on turnover up 3 per cent to £3.19bn.

Sir Graham Day, chairman, said the company would reduce its dividend cover "over the next two to three years towards 2.5 to 2.7 times". The current figure is nearly 3.5 times after an 18 per cent rise in earnings per share to 36.5p and a total dividend of 10.5p, up 13.5 per cent.

Mr Bill Dale, utilities analyst at SG Warburg Securities, said annual dividend rises of 19 per cent were in prospect for the next three years.

Shares in PowerGen rose 12.5p to 368p. National Power, the other main generator, gained 9p to 353p on hopes it would follow suit on dividends.

PowerGen's improved profitability was helped by the company becoming the largest single supplier to the competitive, non-franchise market of large industrial and commercial customers. Sales increased by 42 per cent to more than 17 terrawatt hours, and the company expects a 10 per cent advance this year.

A considerable reduction was made in operating costs. Salaries and overheads were down by £191m to £563m and the number of employees fell 1,100 to 4,900. This compares with more than 9,000 three years ago.

Mr Ed Wallis, chief executive, said the dividend policy change had been made possible by the removal of several uncertainties, including the completion of the coal review and the signing of five-year coal contracts.

It was unlikely PowerGen and National Power would be referred by the electricity regulator to the Monopolies and Mergers Commission: "Stephen Littlechild will want to say 'look at what I have done' rather than 'look at what the MMC has done'."

The likelihood of a reference was also diminished by the decline in PowerGen's market share. Mr Wallis said this could fall to about 22 per cent by 1997-98, against 29 per cent.

Lex Page 18

Big 6 experience black year

By Andrew Jack

FIVE of the UK's "Big 6" accounting firms suffered a fall in fee income last year, according to figures released yesterday.

Only Andersen – comprising Arthur Andersen and Andersen Consulting – increased its income, which jumped by 17.5 per cent to £388.6m ($598.44m) in the year to March 31.

That caused the firm to rise from sixth to fourth in terms of fee income, just £2m ($3.08m) behind Ernst & Young. Price Waterhouse fell from third to fifth and Touche Ross became the smallest of the Big 6.

Coopers & Lybrand remained the largest, but also reported the biggest decline, down 4.2 per cent to £553m ($851.62m) in the year to May 1. In 1991-92 it was the only one of the Big 6 to report an decline. Total fee income generated by the firms rose by just £2.5m to nearly £2.6bn. The number of partners across the firms fell by 1.4 per cent to 2,797 and the number of other professional staff by 6.4 per cent to 29,601.

Mr Ian Brindle, senior partner at Price Waterhouse, said: "It has been a very hard, lousy grind. The recession has had an impact on our clients which reflects directly on us."

Audit, tax and consulting services performed least well across most of the firms, generally offset by rises from insolvency and corporate reconstruction work.

Mr Roy Chapman, senior partner at Arthur Andersen, said: "It pays to be modest, but I can't really disguise my pleasure. We are pleased but not surprised. We have followed a reasonably clear strategy, with the right type of people pursuing the right sort of client."

The figures in the table have been compiled by the firms with year-ends adjusted to make the data comparable.

Performance breakdown of the Big 6

Firm	1992-93 fee income	% change on 1991-92	no. of partners	% change	other staff	% change
Coopers & Lybrand	553	-4.2	701	-2	6,498	-6.2
KPMG Peat Marwick	490.7	-0.8	598	-0.3	6,463	-7.6
Ernst & Young	390.6	-2.1	389	-2.9	4,672	-8.0
Andersen	388.6	17.5	247	5.6	3,707	3.8
Price Waterhouse	385.7	-3.7	482	0	4,328	-6.0
Touche Ross	345.5	-1.2	370	-8.6	3,933	-10.6

Source: the six accounting firms

Second rights issue in a year for BK Vision

By Ian Rodger in Zurich

BK VISION, the Swiss investment holding company specialising in financial companies, is raising SFr220m ($151m) in its second rights issue in less than a year.

BK, which was formed by Mr Martin Ebner's BZ Bank in October 1991, recently attracted attention by contesting decisions by the board of Union Bank of Switzerland. BK is the largest UBS shareholder with a 15 per cent stake worth SFr820m.

Mr Kurt Schiltknecht, manager of BK, said that the rights issue would enable the company to increase its investments and would increase the liquidity of its shares.

The issue is on the basis of one for every five registered or bearer shares held at 220 per cent of nominal values; that is, SFr1,100 for each new bearer share and SFr220 for each new registered share.

The net asset value of BK, which also holds shares in Zurich Insurance and Leu Holding, has jumped from SFr728m when its last rights issue was launched in August, 1992 to SFr1.27bn (SFr1,273 per bearer share) on Friday.

Mr Schiltknecht said BK believed that financial shares would continue to perform well.

The economies of most industrialised countries were bottoming out, interest rates would continue to fall and restructuring in the banking sector was accelerating.

He said trading in BK shares had picked up significantly in recent months, partly in response to the company beginning to market itself in Germany, and the directors were uneasy about the price of the bearer share, at SFr1,275, being so close to the net asset value.

BK's strategy, which has aroused controversy in Swiss financial circles, is to hold significant stakes in a small number of financial institutions with a view to having some influence on their strategic direction.

Early this year, the company publicly objected to the decisions of the UBS board to evict a director and to create new capital that could be used without prior shareholder authorisation.

In its latest interim report to April 30, BK said only that it regretted the UBS decisions. Mr Schiltknecht said yesterday that the directors were still assessing what, if any, further action to take.

Recovery in passenger traffic boosts BAA full-year results

By Paul Betts, Aerospace Correspondent

BAA, the privatised UK airports operator, reported a 49 per cent advance from £191m to £285m ($188m) in pre-tax profits for 1992-93, helped by a recovery in passenger traffic and retail sales, at its main airports, combined with sharply higher productivity.

Passenger volume at BAA airports rose by 8 per cent to a record 77.7m for the year to March 31 from 72m in 1991-92. After falling 3.7 per cent in the opening half, passenger revenue improved by 2.5 per cent in the second six months.

The company said the recovery in passengerspending reflected an improvement in the general economic outlook as well as the positive impact of sterling's devaluation.

Retail income, which rose 10.5 per cent to £321.7m, was set to overtake traditional income from airport landing charges over the next 18 months as BAA continued to expand that side of the business.

Income from airport charges grew only 1.7 per cent to £369.3m, despite the 8 per cent increase in passenger traffic, reflecting tougher Civil Aviation Authority regulations.

Overall, revenues rose 5.5 per cent to £952m.

Sir John Egan, chief executive, described a 7 per cent rise in underlying pre-tax profits, before provisions and gains from asset sales, as "very sound" in a testing climate for the aviation industry. The company was now "cleared and ready for take-off".

He was confident BAA would show much higher annual profit growth over the medium to long term, compared with its forecast of an annual average traffic rise of 4 per cent.

Underlying profits rose to £297m (£279m). They included lower property provisions of £29m (£55m), reduced staff restructuring costs of £5m (£36m), a £5m charge for retirement benefits and a £24m gain from the sale of the electricity distribution network.

Productivity increased 27 per cent. Staff numbers fell 19 per cent to 8,417.

The company had a positive cash flow for the first time since it was privatised seven years ago, with a net cash inflow of £163m. Borrowings were cut by £102m, reducing gearing from 50 to 36 per cent.

The cash flow improvement reflected lower capital expenditure as well as higher profits and the sale of the electricity system, said Mr Nigel Ellis, finance director.

He said BAA should also be cash positive this year but only by a small amount.

Capital spending was lower because the company had been able to obtain better value for money in part as a result of the recession in the construction industry.

Earnings per share rose 37 per cent to 41.7p from 30.4p. A final dividend of 9.75p lifts the total to 16p from 14.5p.

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SME buys Spanish catering outlets

By Haig Simonian

SME, the Italian state-controlled foods, catering and retailing group which is due to be privatised, has taken another step in its foreign expansion with a plan to develop about 100 motorway catering outlets in Spain, creating 3,000 jobs.

Autogrill, SME's catering subsidiary, is buying 50 per cent of Procace, a catering offshoot of the Spanish Cepsa oil and chemicals group.

The two companies will build 15 new motorway restaurants in a first development phase, which will then be extended with the construction of about 10 new restaurants a year over the next decade.

Autogrill did not reveal how much the stake had cost, nor the size of its future Spanish investments. A company official said the Spanish motorway catering network was relatively undeveloped and offered considerable opportunities.

Autogrill has been seeking to expand beyond the mature Italian market, in which it is the dominant force. The group, which has 328 motorway catering outlets, along with 44 restaurants in Italy's main cities, claims to be Europe's third biggest catering group. The company had sales of about L1,100bn ($742m)and operating profits of L36bn last year.

Its roadside restaurants are a familiar sight on Italy's autostrade, while its city-centre catering activities are now being restructured.

Earlier this year, Autogrill extended its foreign operations by buying "4 Pentes", a French motorway catering concern owned by the Elitair group.

The company is the third biggest motorway catering operator in France, with 15 sites and sales of about L17bn. When the deal goes through in October, the sites will be modernised and redeveloped.

No price for the French transaction was revealed.

Fondiaria debts put at L2,000bn

By Haig Simonian in Milan

FONDIARIA, Italy's third biggest private-sector insurance group, which posted consolidated losses of about L580bn ($392m) last year, is believed to have run up debts of about L2,000bn to finance foreign insurance expansion and diversification at home.

The debt estimate, yet to be confirmed at Fondiaria's annual meeting, is appreciably higher than formerly believed. The size of borrowings indicates the task facing the group's new management under Mr Arrigo Bianchi di Lavagna, appointed managing director earlier this year.

The debts stem from Fondiaria's investment in Aachener und Münchener Beteiligungs, Germany's second-biggest insurer, and expansion into areas such as hotels and clinics in Italy.

The German venture, effectively wound up last month with the DM985m ($615.6m) sale of Fondiaria's 21 per cent stake in AMB, cost about DM1.2bn, excluding financing charges. No figures are available for the size of the domestic diversification. However, the move into hotels and clinics, involving management as well as ownership, is not believed to have been profitable.

Mr Bianchi di Lavagna, in his first newspaper interview, said about L185bn of last year's losses stemmed from difficulties in reinsurance, handled by the holding company on behalf of subsidiaries. A large proportion had come from "stop loss" policies for one subsidiary.

Earnings had also been hit by extraordinary losses on equity stakes, notably AMB and the diversified operations, and by interest charges on borrowings.

He said turning round the Fondiaria group, which comprises La Fondiaria Assicurazioni, La Previdente and Milano Assicurazioni as its three main operating subsidiaries, involved tariff increases and more selective vetting of policies on the loss-making third party car insurance side.

The group is Italy's leader in third-party motor risks, with over 13.5 per cent of the market. Fondiaria would also have to reinforce and "re-educate" its sales agents to sell a wider range of policies and products, he said.

The group has already indicated it intends to sell non-core activities to reduce debts. Negotiations on the disposal of Banca Mercantile, a 13-branch Florence-based bank owned jointly with Ferruzzi, are already under way.

Other assets suitable for disposal include the group's five hotels and health activities. However, Mr Bianchi di Lavagna stressed the company would avoid a fire sale, and was currently weighing up the possibility of using a bank intermediary to obtain the proceeds for its stakes in AMB and the EPIC insurance partnership ahead of the May 1994 payment date.

PowerGen signals big rises in dividends

By Michael Smith in London

POWERGEN, the UK electricity generator, yesterday announced a change in its dividend policy which could mean rises of at least 15 per cent.

It also declared an 18 per cent rise in pre-tax profits to £425m ($654.5m) on turnover up 3 per cent to £3.19bn.

Sir Graham Day, chairman, said the company would reduce its dividend cover "over the next two to three years towards 2.5 to 2.7 times". The current figure is nearly 3.5 times after an 18 per cent rise in earnings per share to 36.5p and a total dividend of 10.5p, up 13.5 per cent.

Mr Bill Dale, utilities analyst at SG Warburg Securities, said annual dividend rises of 19 per cent were in prospect for the next three years: "It could easily be in the 20s."

Shares in PowerGen rose 12.5p to 368p. National Power, the other main generator, gained 9p to 353p on hopes it would follow suit on dividends.

PowerGen's improved profitability was helped by the company becoming the largest single supplier to the competitive, non-franchise market of large industrial and commercial customers. Sales increased by 42 per cent to more than 17 terrawatt hours, and the company expects a 10 per cent advance this year.

A considerable reduction was made in operating costs. Salaries and overheads were down by £191m to £563m and the number of employees fell 1,100 to 4,900. This compares with more than 9,000 three years ago.

Mr Ed Wallis, chief executive, said the dividend policy change had been made possible by the removal of several uncertainties, including the completion of the coal review and the signing of five-year coal contracts.

"The White Paper did not change anything," he said. "The government decided we could continue to make our own decisions." On the level of strategic coal stocks that should be held by the generators, PowerGen thought 4m tonnes was about right, against current stocks of 15.5m tonnes.

Mr Wallis said he did not see a long term future for High Marnham and Drakelow power stations. Offers for them would be considered.

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INTERNATIONAL COMPANY NEWS IN BRIEF

OSHAWA Group, one of Canada's top three food wholesalers and retailers, says first quarter net profit rose 33 per cent to C$7.6m (US$5.98m), or 21 cents a share, writes Robert Gibbens in Montreal.

The upturn was due mostly to acquisitions completed in 1992. Sales for the quarter increased 24 per cent to C$1.27bn.

Oshawa expects improving results through the rest of this year as acquisitions in western Canada and in Quebec are fully absorbed. These have reduced reliance on the central Ontario market. The network now totals 900 corporate and franchised supermarkets nationally.

Oshawa earned C$41.8m, or C$1.14 a share, in 1992, up 19 per cent, on a revenue gain of 8.5 per cent to C$5.01bn. The company is seeking more regional acquisitions.

■ TRANSOCEAN of Norway and US-based Global Marine have signed a letter of intent on the joint ownership and operation of rigs, Reuter reports from Oslo.

"The intention is that Transocean's three 300ft jack-up rigs, Transocean No 5, No 6 and No 7, together with Global's Glomar Moray Firth I . . . shall be jointly owned by Transocean and Global on a 50/50 basis," a Transocean statement said.

Rigs 6 and 7 will be moved to the Gulf of Mexico where they will be marketed and operated by Global. Transocean and Global will also form a strategic alliance on integrated services.

The deal means Global will pay Transocean $8.5m.

■ QUICK HAMBURGER, the restaurants group, a unit of Belgian retailer GIB Group, said it was preparing a listing on the Brussels stock market, Reuters reports from Brussels.

"A dossier is being prepared in view of a bourse listing of shares in Quick restaurants in the near future." Quick said in a statement.

Quick, which runs 210 restaurants in France, Belgium and Luxembourg, said its 1992 consolidated net profit jumped to BFr346m ($10.4m) from BFr299m a year earlier.

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INTERNATIONAL COMPANIES AND FINANCE

Shooting Star aims for domination

Simon Holberton charts the rise of the Hong Kong TV broadcaster

In the emerging battle for the attention of Asia's television viewers, Star Television, the Hong Kong-based satellite TV company, is no shrinking violet.

Talk to senior Star executives and you will hear forecasts of dramatic growth within the industry. They predict the number of broadcast TV channels to expand from the current five "free-to-air" channels to anything from 80 to 100, mostly pay channels, by 1996.

Underlying this outlook is a strategy of dominance in the skies – by seeking to corner available, and soon to be available, satellite capacity – and on the ground by tying down cable TV distributors. Company executives say money is not a problem.

The main reason for this, they say, is Star's owner. Star is 50 per cent owned by Mr Li Ka-shing, one of Hong Kong's wealthiest men, with the rest owned by Hutchison Whampoa, which Mr Li also controls. Another reason is that of the $600m committed in 1991 to Star and its sister company Media Assets, which buys programming, only $360m has so far been spent.

STAR Television will become the sole supplier to Wharf Cable, the cable television arm of the Wharf group, of international television programmes for Wharf's cable network in Hong Kong, the two companies said yesterday.

Wharf, which was recently awarded a pay TV licence, plans to be operating a cable network in October. Initially it will transmit 30 channels on a subscription basis.

Star began broadcasting in May 1991 and by the end of the year it had five "free-to-air" channels running 24 hours a day. According to research commissioned by Star, by February this year more than 45m viewers, in 38 countries from China to Indonesia and Japan to Afghanistan, were tuning into one of its five channels.

It is these sort of figures that have attracted US and British media companies. The initial interest from Mr Rupert Murdoch's News Corporation and Pearson, the diversified UK conglomerate, was for equity participation in Star TV itself.

These preliminary discussions are believed to have foundered on the issue of control. Star executives say that Mr Li, for the foreseeable future, does not want to cede control of the network to any outsider.

Mr Murdoch appears to have retreated to consider his next move, while Pearson's current aim, these executives say, is now more modest. It could result in joint venture deals for an English-language education channel – which would dovetail well with Pearson's educational books expertise – and co-operation on a planned business news channel.

Indeed Star's preferred relationship with potential partners is of the joint venture type. Four of the five channels it currently broadcasts – BBC World Service News, MTV, Prime Sports and a Mandarin Chinese station – are this type of arrangement.

"We want to do partnership deals at channel level," says Mr Julian Mounter, Star's recently installed chief executive. "We are talking to a lot of people about equity in channels. There has been considerable interest in wanting to invest in our free-to-air service, or our subscription service."

By the end of this year, or early next year, Star plans to begin broadcasting five more pay-TV channels. As satellite capacity expands so Star plans to acquire the use of more transponders, or transmitters, and push out more TV channels, especially pay channels.

"When we start subscription services we will be able to move from pan-regional to a whole series of national opportunities," Mr Mounter says.

Star is also investing in new broadcast technology – based on digital compression – and may well be the first commercial broadcaster to use it. Digital compression allows a single transponder to broadcast up to eight separate TV channels at once.

The company currently broadcasts on an AsiaSat satellite – Hutchison owns a third of AsiaSat, together with Cable and Wireless and Citic, Beijing's international investment arm – where it has 11 transponders (of 24) and exclusive rights to broadcast TV internationally.

Li Ka-shing: may have to consider outside equity participation

AsiaSat plans to launch AsiaSat2 towards the end of 1994 or early 1995 and APT Satellite, a mainland Chinese consortium, will launch Apstar2 around the same time. Both satellites will have large "footprints" – the area where a TV signal can be received – covering up to 75 per cent of the world's population and extending from Tokyo to Berlin and Ulan Bator to Hobart.

Star has an option to take eight transponders on AsiaSat2, of a total of 32. It was recently reported that it has signed a $350m deal with APT to lease 20 of Apstar2's 34 transponders. When asked if the report were true, Mr Mounter was evasive, only saying: "We have a deal with AsiaSat and nothing has changed."

In both cases, Star is believed to be seeking exclusive rights, thereby squeezing out potential US and European competitors which might want to start a rival network. But Star's position is not as strong as it may want others to believe; it is based as much on weakness as it is on strength.

If Star is to realise its ambition to corner the market it will need the outside capital which co-operative deals with other operators or programming providers brings. The Li family may even have to consider outside equity participation at the company level in addition to the channel level.

The costs of leasing transponders are high – $1.25m to $1.5m a year each – and so is investment in new broadcast technology, such as digital compression. Star is reluctant to talk about costs associated with this and the cost of its back-up satellite link station in Thailand.

An indication of size of the start-up costs and their impact on a large company was given in 1991 when Hutchison, Star's joint owner, made a controversial change to its accounting policies. For its telecoms and media businesses it changed from the accepted accruals method of accounting to one where costs and revenues are accounted for as they are paid or received. Also, it decided to amortise start-up costs and expenses over periods of up to 10 years.

Star will provide no details of its financial situation, including advertising revenues. Mr Mounter claims that advertising revenues are growing strongly. He also contends that Asia is a more homogeneous advertising market than Europe. "Asians have more of corporate view of life. They do not have a resistance to pan-national campaigns," he claims.

Star appears closer to cracking one early problem it encountered: programming. There was early resistance to selling Star "software" because it was broadcast to so many countries. Providers were concerned that they could not sell theirs in local markets.

"To distribute to 38 countries is expensive," says Mr Mounter. "The profit, after expenses, of distributing to them all is small. So when they equate what they can get from coming to a one-stop-shop like us with the difficulties of revenue collection in Asia they are beginning to think again."

Merrill Lynch names new chairman

By Patrick Harverson in New York

MERRILL Lynch, the largest securities house in the US, confirmed yesterday that Mr Daniel Tully, the firm's president and chief executive, will replace Mr William Schreyer as chairman at the end of this month when Mr Schreyer retires.

The ascension of Mr Tully to the top spot at Merrill was expected – when he was appointed chief executive in May 1992, the firm indicated that Mr Tully would eventually take over from Mr Schreyer as chairman.

Yesterday's announcement, however, leaves open who is to succeed Mr Tully.

Among possible candidates for the top post are the two executives who run Merrill's most successful business groups – Mr John Steffens, head of the firm's individual investor business, and Mr Barry Friedberg, the investment banking supremo.

● Alliance Communications has filed a preliminary prospectus with Canadian securities regulators for a public offering of common shares, Reuter reports from Toronto.

The issue is being underwritten by Midland Walwyn Capital, Wood Gundy, Gordon Capital Corp and Marleau Lemire Securities.

Government cuts hurt profits at Tata steel unit

TATA Iron and Steel (Tisco), the flagship company within India's giant Tata group, reports a 40 per cent drop in net profits, to Rs1.27bn ($40.7m) for the year ended March, Reuter reports from Bombay.

Tisco said margins had been pressured throughout the year by recessionary conditions. It is cutting the dividend from Rs3.5 to Rs2.5 a share.

Mr Ratan Tata, chairman, said prospects would pick up this year as the economy revived, and if government spending on construction projects rose. He hoped to maintain this year's dividend.

He expected sales to increase by 10 per cent in the current year, but declined to give a forecast for profits.

Mr Tata said India's steel industry slipped into recession last year after being hit hard by government spending cuts.

He was optimistic about a revival in the current year. The company expects strong export sales to Asian markets, particularly China.

Sales of products and services last year rose Rs5.65bn to Rs33.52bn. Volume in steel products rose 138,000 tonnes to 1.87m tonnes. Steel production, at 2.08m tonnes, was 106,000 tonnes higher.

However, gross profit declined to Rs4.81bn from Rs5.59bn because of lower margins, the company said.

Tisco said phase three of the company's modernisation programme had made good progress during the year, adding that a new blast furnace was now in full operation.

It said its hot strip mill was undergoing trials and would soon be fully operational. Other units of the modernisation programme, as well as a new cement plant, would be completed in the current 12 months.

IEL sells undertaker business for A$102m

Bruce Jacques in Sydney

INDUSTRIAL Equity (IEL), the Australian investment group, has sold Pine Grove, Australia's biggest undertaker, for A$102m (US$69.3m). The buyer is Service Corp, the US funeral company.

IEL, which is part of the Adsteam group, said the sale would yield a book profit of about A$25m, and the proceeds could be used for payments to shareholders.

The purchase is the first outside North America by Service Corp, estimated to be the world's largest funeral company. It will add about A$47m to its revenue. Pine Grove controls between 13 and 16 per cent of the Australian funeral market.

Mr R. Waltrip, chairman of Service Corp, said the acquisition represented the beginning of a truly global company. The deal is subject to Australia's Foreign Investment Review Board.

IEL is also in the throes of selling its Woolworths supermarket chain, which is the subject of a planned A$2.45bn public flotation.

● Westpac Banking, the big Australian bank, plans to sack 12 per cent of the staff at its head office for New Zealand operations, Reuter reports from Sydney. Westpac currently employs 700 people at the Wellington office.

The decision to make staff redundant follows a review of the bank's operations by an independent consultant.

The review "identified a number of activities and structures that are no longer necessary for the current market environment and have been dispensed with", the bank said.

TCI enters Japanese cable TV market

By Michiyo Nakamoto in Tokyo

THE WORLD'S largest cable television operating company, Telecommunications (TCI) of the US, is entering the Japanese cable TV market via an investment in a unit of Sumitomo Corp, the Japanese trading house.

TCI is taking an 18 per cent stake in Cable Soft Network, a supplier of cable TV programmes serving Japan's 160 cable TV operators. It is currently 100 per cent-owned by Sumitomo.

The investment, which will cost TCI about Y300m ($2.8m), reflects growing interest in the budding Japanese market from US cable TV companies.

It follows a deal by Time Warner Entertainment Japan – 50 per cent-owned by Time Warner of the US; 25 per cent by Toshiba; and 25 per cent by C.Itoh, the trading house – to provide technical assistance to a cable TV operator based in Fukuoka, in southern Japan.

TCI's investment in CSN will provide Sumitomo with valuable marketing and operations management expertise.

The Japanese cable TV market is still in its infancy compared with the US market. CSN, for example, was only founded in 1989, while TCI started in 1955.

The US cable TV company serves more than 10m customers in 49 states, while the entire Japanese market is estimated to be only about 700,000 households.

However, the deal will provide TCI with an early entry into a small, but growing, market. The forecast for the year to March 1994 is for cable TV in Japan to reach 1m households.

The deal will also expand TCI's global interests. It already has interests in 17 franchise areas in the UK to provide both cable and telephone services in partnership with US West, the telecommunications group.

Time Warner said although it was interested in Japanese cable TV, it had no specific plans yet to enter that market.

Merger provisions keep ABSA growth to 12%

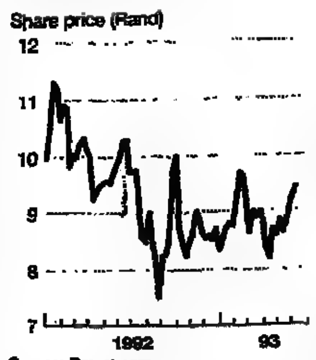
By Philip Gawith in Johannesburg

AMALGAMATED Banks of South Africa (ABSA), the country's largest banking group, increased earnings per share by 12 per cent to 121 cents in the year ended March. It was the bank's first year of trading in its current form, after two large mergers in 1991 and 1992.

The results, which were in line with analysts' expectations, lag those of ABSA's main competitors. This was blamed on numerous one-off costs attributable to the January 1992 merger with Bankorp. Foremost among these were costs related to the retrenchment of 5,000 staff and increased bad debt provisions.

Mr Piet Badenhorst, chief executive, said given that the group had experienced a "crisis year", the earnings performance was satisfactory. The bank is stepping up its dividend by 10 per cent to 43.5 cents a share.

Amalgamated Bank of South Africa



Source: Datastream

Net interest income rose to R3.7bn ($1.16bn) from R2.2bn before the merger.

Bad and doubtful advances, however, rose by 73 per cent to R781m, reflecting the legacy of poor lending at Bankorp and ABSA's more conservative provisioning policy.

Total doubtful debt provisions, including provisions in subsidiaries acquired, rose to R1.87bn from R637m, or 2.86 per cent of advances.

Mr Badenhorst said ABSA had "gone to great lengths to provide adequately" and hence anticipated this figure declining in the year ahead, provided the state of the economy did not deteriorate.

With other operating income rising to R4.7bn from R2.8bn, and operating expenditure increasing to R3.6bn from R2.2bn, pre-tax income advanced to R1.08bn, against R670m. A large jump in the tax bill to R446.1m from R199.8m left net income, before extraordinary items, 39 per cent higher at R683.8m (R491.4m).

The smaller increase in earnings per share reflects the 24 per cent rise in the number of shares in issue following the merger.

Foschini advances 25% to R103m

By Philip Gawith

FOSCHINI, the South African clothing and jewellery retail group, overcame a difficult trading environment last year to record a 25 per cent increase in net attributable income to R103.3m ($32.4m).

Turnover rose 19 per cent to R1.16bn for the year ended March. Operating profit was 20.6 per cent higher at R225m. Earnings per share rose 25 per cent to 232 cents.

Mr Stanley Lewis, chairman, said it was difficult to predict a sustained economic upturn, but said Foschini was confident of "an improved result" in the year ahead.

He said the results reflected "our spread of stores, effective preparation in anticipation of a difficult year, and a commitment to managing costs, enhanced systems, and sharpened focus on product range".

Foschini had invested more in the centralisation of group credit operations, and in strategic systems development, Mr Lewis said. With new stores opened during the year, and an accelerated refurbishing programme, the group expanded by 20 to 713 stores.

Foschini has four principle operating divisions – Foschini, American Swiss, Markhams, and Pages – which together retail clothing, jewellery and accessories to the middle-income market. The company also holds an effective controlling investment in Oceana Investment Corporation, which has a 38.4 per cent interest in UK fashion retailer, Etam.

The company is paying a final dividend of R63.4m, making a total payout for the year of R102m. This is to be satisfied by the issue of new shares, in the proportion of one for 41 held.

Profits for the year were helped by lower interest charges but had to take account of reduced income from associates.

Lower tax and interest prop Email

By Bruce Jacques

EMAIL, the Australian domestic appliance maker, reports net profits little changed for the year ended March, thanks to a steep decline in interest costs and a lower tax bill.

On sales 6 per cent higher at A$1.47bn (US$1bn), the company made profits after abnormal items of A$55.5m, against A$55.3m a year earlier. The dividend is going up from 17 to 17.5 cents a share.

Email's interest costs fell from A$15.7m to A$6.5m as a result of reduced borrowings and lower interest rates. The year's result takes in a strong second half, during which net earnings rose 13.5 per cent after a weak start.

Email predicts a profit improvement in the current year with betting trading. It said exports had continued to grow and margins were increasing despite strong competitive pressure.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, June 7, 1993. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)	COUNTRY		£ STG	US $	D-MARK	YEN (X 100)	COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
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(s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar (v) Floating rate; ♣ CIS applies to states in the Rouble Zone.
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday, June 7, 1993

INTERNATIONAL CAPITAL MARKETS

González victory prompts long-dated rally in Spain

By Sara Webb and Peter John in London and Patrick Harverson in New York

THE surprise election victory of Mr Felipe González, Spain's socialist prime minister, sparked a half-point rally in long-dated Spanish government bonds yesterday.

Dealers said the main feature of the market was the flattening of the yield curve as long-dated bonds outperformed short-dated issues.

Many investors, both foreign and domestic, were keen to do lengthening trades – to switch out of short-dated issues into

GOVERNMENT BONDS

long-dated bonds – on the assumption that the socialist government would cut interest rates gradually.

"The curve had been very steep as the market had discounted a PP [conservative People's Party] victory which would have meant faster rate cuts," said Mr Steve Major, bond analyst at Crédit Lyonnais.

Mr Jouni Kokko, economist at S.G. Warburg Securities, said: "The decisive victory means a vote of confidence in the ERM and a gradual easing in money market rates – so we won't see a float of the peseta or quick interest rate cuts."

However, he added that the next interest rate easing could take place as soon as next week at the June 15 repo.

The Meffsa futures contract rose from 88.55 to end at 89.00, having been as high as 89.15 at one stage.

■ TECHNICAL pressures sent German government bonds lower at first, although they rallied later on hopes of an interest rate cut to close marginally higher.

Bund futures fell in the morning as traders sold heavily to square their books ahead of yesterday's expiry of the June contract.

There was pressure from dealers hedging against a new DM3bn Treuhand bond issue. The June 2003 issue was given a 6¾ per cent coupon.

Dealers said there was little demand for 10-year German paper at present as investors became increasingly cautious over the prospect of over-supply.

Economic analysts were searching for signals of a further cut in the repo rate following comments by Mr Hans Tietmeyer, the vice-president of the Bundesbank, on Friday.

The German central bank has maintained its repo rate at 7.6 per cent for the past month and opinions are divided on whether it might be prepared to shave it by a few basis points tomorrow.

The September bund futures contract was 25 basis points lower at one stage but closed six basis points higher on the day at 94.09.

■ FRENCH government bonds benefited more significantly from Mr Tietmeyer's comments, and received a further lift from a rate cut in Denmark.

Economists said the Bundesbank vice-president had argued for lower rates in France than in Germany on Friday. This combined with a general fillip from Denmark where the central bank cut its discount and key deposit rates to 7.75 per cent from 8.25 per cent effective today.

On the Matif, the June futures contract was bid up by 0.60 to end at 117.30 on turnover of 110,000 contracts during official trading.

■ IN the UK, overseas buying, specifically from Germany, sent the September gilt futures contract up to 103.22 from 103.14.

Further progress was held back as domestic investors concentrated on Friday's announcement of new gilts issuance.

The Bank of England offered £600m in government bonds split evenly between 7¼ per cent Treasury stock due 1998, 9¾ per cent stock dated 2002 and 9 per cent stock dated 2012.

Dealers said around £50m of the 2002 issue and £50m of the 2012 issue was taken up.

■ ITALIAN government bonds closed slightly higher helped by the strength of the lira and hopes of lower interest rates.

Dealers said the local elections at the weekend, which showed strong gains for the protest and left-wing parties at the expense of the mainstream parties, had little impact on the bond market.

The September Liffe futures contract ended up 0.03 at 99.67 on relatively low volume.

■ US Treasury prices rebounded from last Friday's heavy losses yesterday, posting solid gains at the long end of the market in subdued trading.

By midday, the benchmark 30-year government bond was up ¼ at 102⅞, yielding 6.890 per cent.

At the short end of the market, the two-year note was up 1/32 at 99 31/32, to yield 4.291 per cent.

After last week's late declines, which were prompted by a bigger-than-expected increase in May payrolls, prices got off to a firm, if uninspired, start.

Analysts had expected the heavy losses to bring some bargain hunters into the market.

■ JAPANESE government bonds ended mixed yesterday, with the benchmark cash bond closing firmer while futures ended weaker on the day.

The bond market opened on a weak note, continuing Friday's decline and following the fall in the US Treasury bond market in response to stronger-than-expected US jobs data.

The yield on the benchmark No 145 JGB opened at 4.58 per cent, and moved to 4.54 per cent before ending the day at 4.555 per cent.

The September futures contract opened at 107.28 and fell to a low of 106.99 before recovering to end at 107.15.

FT FIXED INTEREST INDICES

	June 7	June 4	June 3	June 2	June 1	Year ago	High *	Low *
Govt Secs (UK)	94.99	95.16	95.11	95.04	94.84	88.70	95.04	93.28
Fixed Interest	111.13	111.71	111.55	111.32	111.13	104.83	113.83	106.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (8/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	June 4	June 3	June 2	June 1	May 28
Gilt Edged Bargains	89.8	90.9	93.1	97.0	97.9
5-Day average	93.1	96.0	98.1	98.6	97.8

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	112.2085	-0.535	7.74	7.57	7.52
BELGIUM		9.000	03/03	111.1000	+0.200	7.37	7.38	7.48
CANADA *		7.250	06/03	97.5500	+0.050	7.60	7.52	7.51
DENMARK		8.000	05/03	103.6000	+0.100	7.47	7.52	7.77
FRANCE	BTAN	8.000	05/98	105.6801	+0.371	6.60	6.70	6.72
	OAT	8.500	04/03	109.1000	[illegible]	7.17	[illegible]	7.30
GERMANY		6.75	04/03	98.9200	+0.075	6.90	[illegible]	6.80
ITALY		11.500	03/03	97.5750	+0.015	12.28†	12.40	12.58
JAPAN	No 119	4.800	06/99	[illegible]	-0.025	4.42	[illegible]	4.32
	No 145	5.500	03/02	105.8966	+0.098	4.58	4.59	4.46
NETHERLANDS		7.000	02/03	101.6800	-0.080	6.75	6.70	6.68
SPAIN		10.300	06/02	98.8399	+0.545	10.86	10.95	11.61
UK GILTS		7.250	03/98	100-21	-01/32	[illegible]	7.14	7.07
		8.000	06/03	98-27	+5/32	8.02	8.10	8.06
		9.000	10/08	105-03	+8/32	[illegible]	8.50	8.44
US TREASURY *		6.250	02/03	101-05	+8/32	6.08	6.11	[illegible]
		7.125	[illegible]	102-26	+11/32	6.89	6.93	6.85
ECU (French Govt)		8.000	04/03	103.2500	+0.300	7.52	7.51	7.72

London closing, *New York closing. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

France plans to launch FFr40bn bond this month

By Alice Rawsthorn in Paris

THE French government plans to launch its record FFr40bn convertible bond issue before the end of the month. The bond will raise capital for France's economic regeneration programme.

A provisional date of June 28 has been set for the issue, to be targeted at private investors who will be able to convert their bonds into shares in newly-privatised French companies or into tax-efficient long-term savings schemes.

Mr Edouard Balladur, France's new centre-right prime minister who late last month unveiled proposals for the special bond, is keen to launch it as soon as possible.

However, the government will have to wait until the necessary legislation has been passed to authorise the issue and to allow extra time in case of legal challenges.

Investors are likely to be given 10 days after the launch to subscribe to the issue. The government has yet to announce whether a special tranche will be reserved for international investors.

Edouard Balladur: keen to launch as soon as possible

Mr Edmond Alphandéry, economy minister, recently abolished the restriction whereby foreign shareholders were not permitted to own more than 20 per cent of the equity of privatised French companies.

The names of the lead managers have yet to be disclosed. However, big French banks, such as Société Générale and Crédit Lyonnais are expected to dominate the operation.

Italy lifts credibility as a borrower with $1.5bn FRN

By Tracy Corrigan

THE Republic of Italy made substantial progress in restoring its credibility as a borrower in the international capital markets, with the launch of its $1.5bn issue of five-year floating-rate notes yesterday.

Italy's debt has taken a battering in the secondary markets in the last year due to concerns about its creditworthiness, which were exacerbated by the country's political instability. The latest downgrade by Moody's to A1 excluded a further group of investors, including many central banks, who are not allowed to buy debt rated less than AA.

INTERNATIONAL BONDS

However, sentiment towards Italy may have turned, with expectations that political reform will gain momentum under the new government of Mr Carlo Azeglio Ciampi, the former central bank governor.

The pricing of Italy's notes at a margin of 25 basis points above the London interbank offered rate (Libor) represented a tightening of the spread which investors are willing to accept for Italy paper – and a cost saving for the republic.

Italy's fixed-rate five-year Eurodollar bond offering, also via Morgan Stanley, was launched last month at a yield spread of 65 basis points over the comparable US Treasury, which represents a margin of around 40 basis points over Libor, if swapped.

The discounted margin over Libor of 30 basis points for the latest floating-rate note issue therefore represents a reduction in funding costs.

Houses holding senior syndicate positions on the transaction reported strong demand for yesterday's issue from an unusually broad range of investors, including bond fund managers, who are not normally buyers of FRNs.

Recent strong US economic data has strengthened expectations that the Federal Reserve may soon move to raise interest rates, encouraging investors to hold at least some portion of their portfolios in floating-rate assets, they said.

However, some other dealers said that sales were rather slow, due to a lack of focus on the deal by investors still expecting Italy to launch a global bond offering.

Mr Alberto Giovannini, head of foreign borrowing at the Italian Treasury, pointed out that foreign currency debt, while important to debt management policy, totals only 3 per cent of the republic's outstanding debt.

At the start of the year, Treasury officials said they planned to raise $10bn-$15bn in the international bond markets; close to $6bn of foreign currency debt has been issued.

The Bank of China is preparing to launch a $200m issue of five-year floating-rate notes today, via Credit Suisse First Boston. The notes will be priced at 50 basis points over Libor.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Republic of Italy‡	1.5bn	(a)	99.75R	Jun.1998	0.2R	-	Morgan Stanley Intl.
YEN							
Toa Steel Co.(b)§	30bn	1.5#	100	Sep.2000	2.5	-	Nomura International
Sony Eurofinance	10bn	4.45	100.15R	Oct.1996	0.25R	-	Sakura Finance Intl.
SWEDISH KRONA							
Swedish Export Credit	500	7.875	99.82R	Jul.1997	0.225R	-	Morgan Stanley Intl.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ¶With equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 3-month Libor + 0.25%. Callable on any interest payment date from June 1995 at par. b) Final terms fixed on 10/6/93. Callable from 1/4/95 at 102.75% declining by 0.25% semi-annually.

S&P places Chrysler debt on CreditWatch

By Tracy Corrigan

STANDARD & Poor's, the US credit rating agency, has placed the BB+ senior debt rating of Chrysler Corporation, the US car manufacturer, on CreditWatch with positive implications.

If the company is upgraded, even by a single notch, its rating will be lifted from speculative to investment grade, which would allow Chrysler to access a broader investor base and help reduce its funding costs. The move would be particularly important for Chrysler Financial Corporation, the credit arm, which is a frequent borrower in the bond markets, according to Mr Edward Tyburczy, an S&P managing director. Chrysler's rating has improved steadily since it hit a low point of B+ in 1992.

The agency said that Chrysler's "earnings and cash flow are significantly exceeding prior expectations, due largely to overwhelming success with new products and steps to enhance operating efficiency."

Chrysler's BB- rated preferred stock has been placed on CreditWatch. Chrysler has total consolidated debt of $14bn.

● IBCA, the UK-based rating agency, has raised the long-term debt rating of Standard Chartered, the British bank, from A- to A. IBCA said that in spite of heavy losses in 1992 due to its exposure to a securities fraud in Bombay, results were "not markedly inferior to 1991".

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 8.55 pm on June 7

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9⅛ 94	300	105⅛	105½	-⅛	[illegible]
Alberta Province 9⅛ 95	600	109¾	110⅛	-⅛	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Arbed 7½ 95 LFr	600	98⅞	99⅞		8.16
ECSC 7¾ 94 LFr	1000	100	101		[illegible]
World Bank 8 96 LFr	1000	101⅞	102⅞		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	13	37	29
Other Fixed Interest	3	0	12
Commercial, Industrial	389	178	834
Financial & Property	256	51	401
Oil & Gas	33	6	45
Plantations	1	1	[illegible]
Mines	34	38	69
Others	57	38	[illegible]
Totals	786	347	1,616

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
48	F.P.	-	58	55	Break for the Border	58		[illegible]	-	-	7.0
25	F.P.	-	33	29	[illegible]	33		-	-	-	-
100	F.P.	-	100	93	[illegible]	[illegible]		-	-	-	-
-	F.P.	-	82	32	Do Warrants	51		-	-	-	-
40	F.P.	-	102	79	[illegible]	91	-1	-	-	-	-
115	F.P.	-	135	130	Drew Scientific	134	+6	[illegible]	-	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29	[illegible]	14/6	21pm	6pm	Conrad Ritblat SG	20pm	+2
105	[illegible]	1/7	21pm	10pm	[illegible]	19pm	
125	[illegible]	9/7	13pm	10pm	Davenport Vernon	12pm	
5	[illegible]	5/7	3½pm	¼pm	Graystone	¼pm	
5	[illegible]	9/7	2½pm	1½pm	Harmony Leisure	1½pm	-⅛
14	[illegible]	7/7	4pm	1pm	Jarvis	1¼pm	
25	[illegible]	-	11½pm	9pm	[illegible]	11½pm	+1
255	[illegible]	7/7	38pm	25pm	Royal Insurance	36pm	+2
130	[illegible]	5/7	54pm	28pm	Saatchi & Saatchi	29pm	-5
135	[illegible]	13/7	34pm	30pm	Sheffield Insltns.	31pm	-2
171	[illegible]	30/6	13pm	10pm	United Drug	11pm	-1

[illegible]

TRADITIONAL OPTIONS

● First Dealings June 1
● Last Dealings June 11
● Last Declarations Sep. 2
● For settlement Sep. 13

3-month call rate indications are shown in Saturday editions.

Calls in Amstrad, Chloride, Dares Ests., Dunhill, Greycoat, Lep Group, Midland & Scot. Res., Nurdin & Peacock, Phonelink, Proteus Intl., TI Group and Waverley Mining Fin. Puts in Lep Group, Ml. Labs., Monarch Res. and Simon Eng.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		CALLS Jul	CALLS Oct	CALLS Jan	PUTS Jul	PUTS Oct	PUTS Jan
Allied-Lyons	500	44	57	[illegible]	8	14	22
(*532)	550	13	29	[illegible]	[illegible]	[illegible]	44
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		CALLS Aug	CALLS Nov	CALLS Feb	PUTS Aug	PUTS Nov	PUTS Feb
Brit Aero	360	45	63	72½	18	31½	38½
(*386)	390	33	50	58	30	47	54½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
Eurotunnel	420	14½	44½	61½	9½	33	46
(*425)	460	2	25½	43	36	58½	69
Glaxo	550	45½	71½	80	2	21	36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

FT-ACTUARIES FIXED INTEREST INDICES

[illegible]

Emap up 56% and new magazines on the way

By Raymond Snoddy

EMAP, the media and exhibitions group, is planning its most significant slate of new magazine launches for many years.

Mr Robin Miller, chief executive, said yesterday plans were well advanced for new magazines in motoring, music and other leisure areas in both the UK and Europe – an immediate investment in the region of £5m.

He was speaking as the group announced a 56 per cent increase in pre-tax profits to £42.4m for the year to April 3 – underlying profit growth of 24 per cent excluding the effects of last June's £78m rights issue and new accountancy standards.

Mr Graham Ross-Russell, chairman, said the record results had been achieved with no help from the economy and "we are not expecting much assistance in the year ahead".

The strongest performer was consumer magazines where operating profit rose 17 per cent to £24.2m on turnover up from £115.1m to £142.6m. The group had 24 titles in the Top 100.

The worst result came from newspapers and printing where there was a 15 per cent fall in operating profit to £6.7m. Emap lost a significant contract – the printing of the Sport newspapers to the Daily Telegraph. The loss and tight margins led to restructuring and a cut in overall pay of 20-30 per cent for about 100 printers. Newspaper advertising was down by 1 per cent although there were signs of improvement in the final quarter.

Exhibitions showed an 11 per cent increase in operating profit to £6.4m and the first full year of Radio City and Kiss FM saw revenue up 18 per cent and profit of £800,000. Emap has applied for a new AM licence in London for a service aimed mainly at women.

The largest percentage leap came in business publishing where profits rose from £500,000 to £4.6m, mainly reflecting the acquisition of Maxwell Business Communications. There was also a maiden contribution from the 14 business titles bought from International Thomson.

"We increased profit margins on the Maxwell titles from 4 per cent to 9 per cent. We hope we can do the same with the Thomson titles," Mr Miller said.

A final dividend of 5.825p lifts the total by 9 per cent to 7.9p, payable from earnings of 17p (12.1p).

● COMMENT

Emap continues to produce good results from a stable formula of launching new titles and going for careful acquisitions. The group will have to continue doing that to justify its high market rating – a current 37 per cent premium on the FT-A All-Share Index. The group is, however, not relying on any help from the economy in their budget forecasts for the current year. A sustained economic recovery could transform the outlook for the company. Analysts are forecasting pre-tax profits of between £47m and £49m this year.

Clive Smith creditors stop bankruptcy move

By Peggy Hollinger and Catherine Milton

MR CLIVE SMITH, the entrepreneur once involved in two natural resource companies under investigation by the Serious Fraud Office, yesterday avoided bankruptcy when a majority of creditors owed more than £20m accepted his proposals for repayment at a rate of 8.13p in the pound.

However, some creditors remained sceptical about the outcome of the vote and determined to take the issue further.

In a meeting lasting more than two hours Mr Smith was questioned closely about his links with some of the creditors who voted in favour.

Most particularly, they sought information about his relationship with Richard Pearce and Son, a Hong Kong registered company with the same Irish address as Mr Kelvin Myles, who has manged many of Mr Smith's offshore interests.

Mr Smith denied he had any connection, direct or indirect, with the Hong Kong company. Richard Pearce's proxy was voted by the meeting's chairman Mr Graham Wilson, the insolvency practitioner who arranged the creditors' meeting.

Representatives also asked for details of any assets Mr Smith holds offshore and questioned the validity of allowing Newsham Investments to vote its claimed £3.8m debt. Newsham is a vehicle for the Smith family interests.

One creditor leaving the meeting commented: "We remain sceptical. We have been promised today information about Mr Smith's offshore trust fund but we have yet to receive it."

Some creditors' representatives also sought information about the nature of Mr Smith's involvement with Alpine (Double Glazing), the windows company, which ceased trading late last month.

Colin Beere

Clive Smith: creditors accepted repayment proposals but some were sceptical about the vote

Heron banks reiterate stance

By Maggie Urry

BANKERS involved in the restructuring of Heron, the property and trading group, yesterday reiterated their view that the proposals offered creditors significantly more than they would achieve if the group was put into receivership.

UBS, advisers to Heron, pointed to the report from Price Waterhouse, the accountants, which said "the restructuring is significantly better than bankruptcy".

They were responding to a document circulated by Mr Gary Klesch, a bond dealer who claimed to represent 10 per cent of Heron's bondholders and said his firm owns Ecu1m of bonds. Mr Klesch urged holders to vote against the restructuring which is being presented to creditors at a series of meetings beginning on June 28.

If the proposals are turned down Heron has said it would go into receivership. The complex nature of the group, which includes some 300 companies and has debts of £1.7bn, would make insolvency proceedings lengthy and costly.

Bondholders are creditors of the parent company which owns only 5 per cent of the group's assets. They are relying on proceeds from asset sales by subsidiaries being passed up to the head office company. However, each of the companies in the group could have a different receiver or administrator.

Some investors bought bonds when the were trading at about 25-28 per cent of face value, and have seen them fall to 15 per cent currently. It is thought that these investors are disgruntled and are threatening to vote against the restructuring in the hopes that Heron will improve terms to bondholders. However, another banker involved in the deal said "there is an absolutely zero likelihood that they will improve the terms".

Leigh Interests blames coal side for 33% fall

By Roland Rudd

A REDUCED contribution from coal extraction and higher interest charges were blamed by Leigh Interests, the waste management company, for a 33 per cent fall in pre-tax profits for the year ended March 31.

Profits were down from £14.1m to £9.5m following a sales reduction from £118.9m to £109.2m.

Increased investment and acquisitions were responsible for a rise in borrowings from £38m to £50m, representing gearing of 72 per cent. Interest charges were up by £1.3m to £4.2m.

Capital expenditure is expected to be cut from £34m to between £15 and £20m. The company continued to invest in a national network of waste collection, disposal and treatment facilities.

Mr Malcolm Wood, chairman, said that while the commissioning delays of new plant in the Midlands held back profits in that region, the reduction in volumes of waste in previous periods in the south of England had ended.

The mainstream environmental business reported reduced operating profits of £12.4m (£13.5m) on sales of £93.7m (£97.3m).

Operating profits from the extraction and processing of coal fell from £3.6m to £1.3m following the decreased production from the company's reserves, in consequence of the review of the coal industry and delays in granting of consents for new open cast mines.

During the year Leigh acquired 120 acres of freehold land at Rugby, which it already occupied on a leasehold basis, for £3m.

Earnings per share fell from 15.5p to 10.3p. The final dividend is maintained at 5.37p making an unchanged 7.83p.

Eastern boost as Oriflame rises 34%

By Andrew Bolger

A STRONG performance in eastern Europe helped Oriflame International, the direct sales cosmetics group, increase pre-tax profits by 34 per cent to £11.9m.

Sales rose by 29 per cent to £83.6m in the year to March 31, although the group said trading conditions had been difficult in its traditional Scandinavian and UK markets. However, there were some signs that these economies would improve over the next 12 months.

Although earnings per share rose by 30 per cent to 20.4p (15.7p), the final dividend is held at 8p, giving an unchanged gross total of 12p.

The group said it had not increased the dividend because it spent £3.2m on its Dublin production facilities, increased working capital and invested in Norway and Portugal. It was confident that this investment would increase earnings and that dividend growth would resume next year.

Mr Robert af Jochnick, chairman, said: "This has been a highly successful year for Oriflame in most of our markets and in eastern Europe in particular. We have increased our investment in our production facilities and this, coupled with our geographic spread, gives us great potential for further successes in the future."

The group said its manufacturing operations had begun to experience the anticipated economies of scale as a result of the integration of ACO, the Swedish skin care brand which it bought for about £10m at the end of 1991. ACO products added £12.1m to sales and made a strong contribution to group profits.

The group's 25 per cent stake in Oriflame Eastern Europe and position as primary supplier to that associate continued to bear fruit. Sales to eastern Europe more than doubled to £6.4m and Oriflame Eastern Europe more than doubled its contribution to pre-tax profits to £3m.

Mail order sales of the Oriflame and Vevay brands in Denmark rose. But after consideration of the contributions from Vevay in France and the UK, the group decided to cease trading in these markets.

Clydesdale Gp defers introduction

By James Buxton

CLYDESDALE Group, the Glasgow-based electrical goods retailer, has postponed the Stock Exchange flotation scheduled for later this month. It said that profits, though showing a substantial increase, were below expectations.

Operating profits in the year to April 3 1993 were £5.62m, compared with £4.4m in the previous 14 months. But it had forecast operating profits of about £7m, and that was included in a report on the company by NatWest Securities, its broker.

Group sales were £141m, a 27 per cent rise on the £111m of 1991-92. A direct year-on-year comparison showed growth of 42 per cent.

Clydesdale said current trading and expansion strategies had proved successful in a poor economic climate and it was well placed for an upturn in consumer confidence. It had made a good start to the current year and was optimistic about the outturn for the year as a whole.

The company wants to float on the basis of better profit figures, which could mean waiting a year.

The flotation would have raised £30m in new money to wipe out most of its borrowing and to finance further expansion in England. It had been expected to value the company at about £80m.

RJB shares slip on first day

RJB Mining, the Nottingham-based coal mining company, saw its shares slip in the first day of trading yesterday.

Priced at 250p, the shares opened at 229p and improved slightly during the day to close at 234p. Turnover was 898,000 shares.

The flotation drew applications for only a fifth of the shares on public offer. Most of the equity was placed with institutional investors.

Hicking ahead 31% to £2.9m

By Peter Pearse

HICKING Pentecost, the industrial products and textiles company, maintained its progress over the past three years with a 31 per cent rise in pre-tax profits to £2.85m in the 12 months to March 31.

Mr Tudor Davies, managing director, said he was pleased with the rise from £2.17m and added that the devaluation of sterling should have a favourable impact on next year's results. Export sales accounted for £6m – mostly in textiles – of the £29.5m (£24.6m) turnover.

Mr Davies acknowledged that the textiles side had proved the most resilient – it lifted operating profits 30 per cent to £2.32m on sales 9 per cent ahead at £20.5m. Operating margins rose to 11.3 (9.5) per cent.

Since he and Mr John Lister, chairman, joined the group, they have added the industrial products side to the previously floundering textile group. He said they had been more adept at managing the core than either had imagined they would be.

However, Mr Davies said that the group was looking for opportunities to create a third leg – "so as not to be too dependent on textiles".

Operating profits in the industrial products division rose 7 per cent to £640,000 on turnover up 55 per cent at £9m. The turnover figure was boosted by three acquisitions for an aggregate £2.84m.

Other acquisitions were predicted by Mr Lister; Mr Davies suggested that in textiles they would be bolt-on, possibly making use of Hicking's in-house dyeworks.

Mr Lister said that in view of the "excellent results and strong cash generation", a 20 per cent rise in the final dividend to 2.65p is recommended, making a total of 4p (3.4p), payable from earnings of 11.64p (10.07p).

Jeyes shares drop 28% on trading warning

By Richard Gourlay

SHARES IN Jeyes plunged 28 per cent yesterday after the cleaning products group said current trading was substantially below market expectations and revealed greater than expected reorganisation costs.

The shares fell 122p to 317p, some 68p below last July's rights issue price that took the group into continental Europe and nearly doubled sales.

The profits warning is a severe set-back for Jeyes which floated in 1988 two years after a trend setting management buy-out from Cadbury Schweppes and had since won a heady stock market rating.

Mr Jimmy Moir, chief executive, said operating margins in the UK, the group's largest market with 45 per cent of sales, had fallen from 8 per cent to 3 per cent in the first half. Margins had been hit because a sharp increase in promotional spending designed to gain market share had coincided with a period of zero price inflation.

Market shares had increased sharply in hygiene wipes and bleach but all the reduction in margin had been felt directly on the bottom line, Mr Moir said.

Exports were 18 per cent below where the group had anticipated they would be.

Jeyes also made a £600,000 provision to reduce the size its management overhead following the Globol acquisition in Germany. While the group was expecting to have to reorganise the manufacturing plant, it had not anticipated the cost of reorganising the management.

German sales, margins and operating profits from Globol were ahead of plan and last year's levels.

Overall, the group would be £2m short of the expected level of pre-tax profits in the first half. Mr Moir said he remained confident that the second half would be in line with expectations. "In many ways the forward view is not bleak," he said. "None of the benefits (of the reorganisation) have been felt in first half."

Market share would be much higher in the second half without some of the cost of achieving higher sales. But lower interim profits meant the pre-tax outcome for the full year would be "well below market expectations", he said.

Price cutting leaves JFB 38% lower at £2.07m

JOHNSON & Firth Brown, the metals and engineering group, said continued price competition was behind a 38 per cent fall in pre-tax profits for the half year ended March 31, writes Roland Rudd.

Profits declined from £3.32m to £2.07m on increased sales of £63.3m (£60.3m).

Mr Martin Llowarch, chairman, had expected the devaluation of sterling to help JFB "fight against some fairly frightening price cuts". But its German competitors had reacted by reducing their prices by a further 15 per cent.

He said: "Notwithstanding the UK devaluation, our European competitors' determination to maintain market share, given their lack of domestic markets and despite a higher cost base cannot be ignored."

Operating profits from Firth Rixson edged up from £1.46m to £1.55m.

Viking Metallurgical Corporation, purchased from Quanex for $12.8m (£8.5m) in March, exceeded expectations.

Light engineering, which manufactures products such as cables and machinery, saw its operating profits fall from £2.2m to £1.7m.

JFB had net cash balances of £4.8m, excluding medium-term borrowings, after spending £1.9m on capital investment and £4.9m on acquisitions in the half year. The interest charge of £730,000 compared to a £83,000 credit reflects the investments and lower interest rates.

Earnings per share fell from 1.6p to 0.8p. The interim dividend is maintained at 1p.

Dunedin hoping to raise £50m

Dunedin Fund Managers is hoping to raise £50m for a new investment trust specialising in Japanese equities. The Dunedin Japanese Investment Trust will be run by the same team that currently runs the group's Japanese unit trusts.

For the first five years of the trust's life, Dunedin will donate 35 per cent of its 1 per cent annual management fee to the charity Barnardos.

UBS will be the issue's sponsors and the money will be raised via a placing and open offer, which is expected to open in early July.

Field float carries £150m valuation

By Maggie Urry

FIELD GROUP, the folding carton maker, has issued the pathfinder prospectus for its flotation and announced results for the year to April 4 showing a rise in operating profits from £10.2m to £12.6m.

The group aims to raise £90m through the flotation, expected to value Field at about £150m. There will be a placing and public offer divided with about 35 per cent going to the offer.

Of the proceeds, £18m will cover sales by existing shareholders, including some directors, £21m will redeem preference shares and £48m will repay zero coupon bonds. These securities were issued at the time of the management buy-out from SCA, the Swedish paper and packaging group. That would leave £3m of net new money for the company.

Mr Keith Gilchrist, chief executive of Field, said the group had started the current year well with sales and profits higher. He said the group had supplied 21 of its top 30 customers for more than 20 years. The top 30 account for two thirds of group sales.

Growth would come, he said, from an upturn in consumer spending, new product launches, customers rationalising their suppliers, and the potential for cartons to replace other packaging such as plastics. Field has developed a carton for shampoo, as well as liquid detergents and motor oil. There would be benefits from £50m of capital expenditure over the last five years.

Over the last four years and despite a slight fall in the UK market for cartons, Field's UK operations had shown volume growth of 35.8 per cent. In 1990 Field bought Mareen, a Belgian carton company.

Mr David Nussbaum, finance director, said that sales excluding Mareen since the 1988-89 financial year had risen by 11.3 per cent per year compound and operating profits by 8.8 per cent.

Sales in the latest financial year, which covered 53 weeks, rose from £124.5m to £138.7m. Operating profits were before a £2m exceptional cost relating to the write-down of property assets.

After the float the group would have no net debt, Mr Nussbaum said, but the acquisition of the packaging business of Boots, the retail and pharmaceutical group, would give gearing of about 9 per cent.

The pricing for the float is to be announced on June 23, with the public offer closing on June 30. First dealings are to start on July 7.

The sponsoring bank is Schroders, and James Capel is the broker. Investors wanting to register for a prospectus can telephone 0645 600650.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Aberdeen Trust ....int	0.5	July 28	1	-	1.5
Acal § ....fin	4.2	Aug 2	3.9	6.3	5.85
MAA ....fin	9.75	Aug 3	8.75	16	14.5
Critchley ....fin	4.8	Sept 7	-	4.8	-
Cullen's ....fin	0.5	Aug 31	0.5	0.5	0.5
EFM Income Tst ....fin	1.275	Aug 2	1.275	4.875	4.875
Emap ....fin	5.825	Aug 13	5.5	7.9	7.5
Gartmore S'land ....int	2.4✝	-	2.8	-	11.6
Henderson Admin ....fin	29.5	July 15	28.5	42	41
Hicking P'tecost........fin	2.65	Aug 5	2.2	4	3.4
Johnson Firth ....int	1	July 29	1	-	3
Leigh Interests ....fin	5.37	Oct 1	5.37	7.83	7.83
Molynx ....fin	nil	-	2.7	1.3	4
Neotronics ....int	0.85	Aug 27	0.85	-	2.6
Oriflame ....fin	8‡‡	Sept 22	8	12	12

Dividends shown pence per share net except where otherwise stated. §USM stock. ‡‡Gross. ✝Third interim; makes 7.2p to date.

COMPANY NEWS: UK

Henderson Administration down 14.5%

By Philip Coggan, Personal Finance Editor

PRE-TAX PROFITS at Henderson Administration, the fund management group, fell 14.5 per cent from £17m to £14.6m in the year to March 31.

However, the final dividend edges up to 29.5p, making a total of 42p (41p). Earnings per share fell to 45.74p (54.35p).

The group acquired the Touche Remnant fund management company during the year, helping funds under management rise to about £11.5bn. Touche Remnant made a £1.1m contribution to operating profits, although after deducting costs, the net contribution was £764,000.

The cost of acquiring Touche Remnant was £43.4m, including expenses. After allowing for the effects of a pension fund holiday and for the costs of integrating the businesses, Henderson wrote off £24.4m of goodwill against its assets. As a result, shareholders funds fell to £36.8m, from £60.2m at the end of March 1992.

The main fall in profits occurred in the first half when stock markets were weak. However, second half profits, at £8.1m, were also down from the £8.2m recorded in the second half of the previous year.

The group suffered some further losses of pension fund clients, reflecting disappointing investment performance in the late 1980s. However, Henderson said that its performance had recently improved, although it was "still too early" to say whether it had seen the end of client losses.

The acquisition of Touche Remnant turned the group into the UK's largest investment trust manager and there will be a marketing relaunch this summer. The range of unit trusts is set to be rationalised, with fund mergers expected to reduce the number of trusts from 35 to 21.

Operating profits were £9.66m (£10.1m) and interest income fell from £6.91m to £5.48m due to lower interest rates and the loss of cash spent on the acquisition.

There was a loss from associated business of £585,000, mainly reflecting costs at Seligman Henderson, the US venture.

See Lex

Critchley moves ahead to £3.05m

By Paul Taylor

CRITCHLEY GROUP, the electrical cable accessories manufacturer which came to the market in November, increased pre-tax profits by 35 per cent over the year to March 31.

Strong demand in the UK and overseas, coupled with the acquisition of EPC Identification Systems of the US in April last year, helped lift profits to £3.05m (£2.26m).

Turnover increased 24 per cent to £24m (£19.2m) of which £1.89m was attributable to EPC. Overseas sales accounted for 43 per cent.

Earnings per share rose 25 per cent to 19.1p (15.3p) out of which a 4.8p dividend is proposed.

The core electrical cable accessories and identification products business increased sales 26 per cent to £17.4m (£13.8m) and operating profit 14.5 per cent to £2.54m (£2.22m).

New products, particularly HSI, the computerised wire marking system which is now Critchley's biggest seller, and sale of cable accessories manufactured in LFH (Limited Fire Hazard) plastic materials, made "good contributions."

Main customers in the UK for these products include the power generation, oil and gas, and rail industries.

Direct exports from the UK rose 21 per cent mainly reflecting strong demand for specialist products. Mr Chris Humphrey, finance director, said margins were "fractionally" higher.

The group's two other companies, Critchley Wound Components and Critchley Enclosures, both serving the electronics industry, also improved their performance.

In April the group acquired the BT Label Centre for £1.5m cash. The business, subsequently renamed Critchley Label Centre, produces printed plastic identification labels for BT and a growing number of industrial users.

Neotronics falls to £0.96m

NEOTRONICS Technology, a maker of specialist gas and water analysis equipment, yesterday reported a drop in pre-tax profits from £1.14m to £956,000 for the six months to March 31.

Mr Paul Gotley, chairman, said that, as indicated, the current year started poorly. Group sales in the UK rose slightly despite recession and this was helped by the successful development in the UK of Solomat sales.

Sales rose 13.2 per cent to £10.5m. Excluding Solomat for the first three months the increase was 5.5 per cent.

For the full year 1991-92 pre-tax profits were 16 per cent higher at £3.03m.

Earnings per share were reduced to 2.38p (2.77p). The interim dividend is unchanged at 0.85p.

An uncomfortable animal seeks big league status

Guy de Jonquières looks at Cadbury Schweppes' plans to change its international image

CADBURY Schweppes thinks it suffers from a perception problem. "People today want an uncomplicated, two-word description of everything," says Mr Dominic Cadbury, chairman. "But if you are more than national, yet less than global, you are an uncomfortable animal to describe."

The stock market seems to agree. Until last autumn, Britain's largest confectionery and soft drinks company was a City darling. Applauded for the quality of its management, its tight focus on two core businesses and its strong commitment to product innovation and brand support, its shares handsomely out-performed the UK food sector from mid-1991.

But recently, Cadbury's City halo has slipped and its share price with it, although the latter has recovered partially in the last few weeks. As its premium rating has eroded, some erstwhile fans have begun to wonder if their earlier enthusiasm was overdone.

This swing in sentiment seems hard to pin only on Cadbury's recent performance – or on the fading of long-standing speculation that it was a prime bid target.

True, pre-tax profits rose only 5.7 per cent last year, well below the annual growth to which investors have grown accustomed. But the results, depressed by a £14m restructuring charge, handsomely exceeded expectations and were accompanied by bullish management forecasts for this year.

The doubts most often expressed concern the longer term. One is that Cadbury has outgrown the UK but lacks a convincing international expansion strategy. The other is that, to secure future growth, it must take some bold strategic initiative soon.

Mr Les Pugh, food industry analyst at Salomon Brothers, says Cadbury is "at a watershed". Mr John Campbell of NatWest Securities, which recently issued a bearish report on the group, argues that it is "in a strategic bind."

"Baloney," replies Mr Cadbury, insisting no dramatic moves are needed or likely. "Our task is to go on growing the business by incremental steps. We've done it in the past 10 years – why should we not be able to in the next 10?"

He points to the success of both UK businesses, Cadbury Ltd and Coca-Cola & Schweppes Beverages, the six year-old venture with Coca-Cola, in increasing sales and profits. Both are the market leaders and earned margins of more than 10 per cent last year.

Sceptics agree that the record is impressive, but wonder whether the businesses can grow much faster than their markets in the future. They argue that Cadbury Ltd has profited from one-off rationalisation at Trebor Bassett, its sugar confectionery division, and from temporarily weaker performances by rivals Nestlé and Mars.

Meanwhile, the recent sale by Terry's, United Biscuits' chocolate division, to Philip Morris of the US has brought another heavyweight contender into the UK.

But the keenest debate centres on Cadbury's international businesses, into which a growing share of resources has been channelled. Seventeen of its 20 acquisitions in the past five years were abroad and accounted for £900m of the £1.25bn total spent. But while half of sales has for some years come from abroad, the share of profits has slipped from 63 per cent in 1989 to 55 per cent last year.

Ashley Ashwood

Dominic Cadbury: insists no dramatic moves needed

Cadbury's overseas operations, spanning some 150 countries, are widely, but thinly, spread. It is clear leader only in a few – mostly traditional Commonwealth markets. The group says exploiting profitable sub-sectors of the market matters more than overall category leadership and scale.

Nonetheless, it has recently been stung by the sceptics into raising the profile of its international ambitions, particularly in confectionery, where foreign expansion has historically received less emphasis than in beverages.

"The aim is very clear. We intend to be part of the big league," says Mr David Wellings, who became group chief executive last month after running the confectionery business. He wants Cadbury to rise from fourth position in the $45bn world market to rival Philip Morris for second place behind Nestlé. The challenge is how to do it. Cadbury sold its US operations in 1988 to Hershey, which makes its brands under licence, though it remains free to sell sugar confectionery there. Cadbury also concedes it is weak in continental Europe, where its confectionery sales in France, Germany and Spain were £269m last year.

The group needs acquisitions to expand further in Europe and is counting on competitive pressures to shake out more candidates. But rivals have already purchased many of the best targets, and most of those remaining are small and privately-owned. They are also being eyed just as eagerly by Philip Morris and Nestlé, which have deep pockets and reputations for paying sky-high prices.

Mr Wellings remains undaunted. "If we can't find a ready-made hotel to buy in Europe, we'll build our own brick by brick," he says.

Apart from Australia and New Zealand, where Cadbury is well-entrenched, that leaves Africa, Asia and the Middle East. The group thinks these regions are set for rapid growth and has long had a presence in all of them. It recently built a plant in Egypt and plans another in China.

However, the investments needed to build sizeable businesses in so many countries look formidable. Though the group's balance sheet and cash flow are strong, Mr Cadbury admits new markets take time to contribute to the profits stream which he is committed to increasing every year.

Nor is the Cadbury brand that powerful an asset. Though the company is known worldwide, its name and established confectionery lines mean little to consumers in many countries. Even in Europe, Mr Wellings says, UK products need to be re-formulated and re-branded locally.

In beverages, the challenges are different. Brands such as Schweppes and Canada Dry are genuinely global. However, like much of the group's beverage range, they are niche products with limited mass market appeal. Though the world's third largest soft drinks producer, Cadbury Schweppes' 4 per cent market share puts it far behind Coca-Cola and PepsiCo.

The group's prosperity hinges on balancing between two options. Either it can franchise its brands to other soft drinks bottlers, which minimises investment but also control over distribution. Or it can invest in its own bottling facilities, as it did by acquiring a Mexican mineral water company for £188m last year. That gives a firmer grip on marketing but requires high sales volumes to be economic.

Cadbury Schweppes' success in treading this tightrope has depended heavily on its agility and skill in forging alliances around the world with its bigger rivals. "We can help Pepsi by strengthening its ability to compete with Coke, and we can help Coke by filling niches in its portfolio," says Mr Frank Swan, head of the group's beverage business.

That did not prevent an uneven performance in continental Europe last year, due partly to structural changes and fiercer competition in the soft drinks business. But Mr Swan thinks these shifts will also create chances for deals and ventures which Cadbury is well-placed to seize.

In the US, he says, the group can continue to grow profitably by distributing existing products more widely. But he would also like to expand its modest 4 per cent market share and brand portfolio through acquisitions. He does not rule out a deal with Dr Pepper, the soft drinks group which Cadbury tried to buy in the 1980s and which has US sales double those of the UK company.

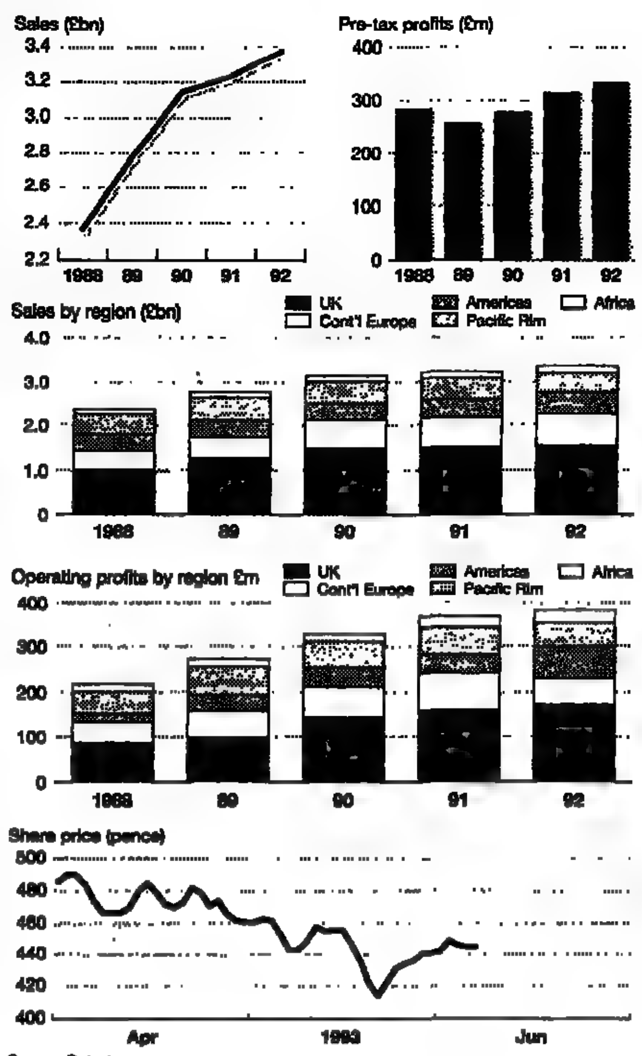
But some observers believe that, with Mr Wellings as chief executive, any big medium-term developments are more likely be outside soft drinks – a view reinforced by his recent emphasis on the global ambitions of the confectionery side.

Nor does Mr Wellings exclude expansion into new fields. While dismissing as speculation reports that Cadbury had discussed a possible merger with United Biscuits earlier this year, he says: "Just because we make products that are brown and sold in little packets doesn't mean that is the only business we are going to be in. It is a statement of fact that we're in confectionery and soft drinks. It need not be a statement of intent."

What lies behind those comments is unclear. The group's top managers emphasise that they remain pragmatic about how to further the group's development and will take opportunities as they come. "Acquisition, alliance, joint venture – we're open to it," says Mr Wellings.

However, that also implies a dependence on the right opportunities turning up at the right moment. Perhaps the one certainty is that, as a group which is committed to sustained increases in annual profits and has already experienced the threat of hostile takeover, Cadbury knows it cannot afford to disappoint the expectations its performance has created among its shareholders.

Cadbury Schweppes



Source: Datastream

NEWS DIGEST

Acal shows 13% rise to £3.15m

ACAL, the USM-quoted electronics and industrial controls distributor, finished the year ended March 31 1993 with a pre-tax profit of £3.15m, an increase of 13 per cent over the £2.78m of the previous year.

The growth was mainly the result of further improvement in the Netherlands, the turnround in Acal Electronics in the UK, and the success in Belgium with the acquisition of Betea Components, reported Mr John Curry, chairman. That, together with Italy and currency benefits, accounted for an increase in sales of 18 per cent to £68.9m (£58.5m).

Earnings per share came to 14.6p (14p). The final dividend is 4.2p for a total of 6.3p (5.85p).

AG Holdings

AG Holdings is coming to the market through a placing of 8.82m shares at 125p each, leaving existing shareholders with 51 per cent of the group.

Of the shares, 6.82m are being sold by existing holders and the balance by the group to raise £2.05m net for reducing borrowings prior to suitable expansion opportunities.

The group operates from Askern, near Doncaster, and is the largest UK maker of despatch and shipping reels used for storing, transporting and dispensing cables, wire rope and similar products.

In the year ended July 31 1992 turnover fell from £17.5m to £16.4m and operating profit from £3.32m to £3m. But crediting non-recurring items pushed up the pre-tax balance from £3.1m to £3.87m.

In the eight months to March 31 1993 turnover had reached £10.7m, operating profit £1.95m and the pre-tax figure £1.87m. For the full year the pre-tax profit is forecast at £2.7m with earnings per share of 11.04p. The first dividend will be a special 2p in January.

BICC

Holders representing 309.1m BICC shares, or 92.3 per cent of the capital, have elected to take the enhanced scrip alternative. Holders of 15.4 per cent accepted the cash offer from BZW Securities and Swiss Bank Corporation.

The reference price was set at 379.63p, against yesterday's closing price of 386p, down 2p. That will result in the issue of 6.17m shares of which 2.49m will go to BZW or SBC.

Cullens

Declines in rental contributions and profit on sale of franchises, together with increased administration costs, had a severe impact on operating profits at Cullens Holdings in the year to February 28.

However, exceptional credits cushioned the fall at the pre-tax level with profits of £401,000, against £608,000.

The group, which operates in the grocery trade through its own and franchised outlets, increased network turnover to £22.7m (£20.6m) including VAT, and retailing turnover to £3.86m (£3.44m) excluding tax.

Earnings per share were 0.8p (1.5p) and the dividend is again 0.5p.

Aberdeen Trust

Aberdeen Trust, the investment and unit trust management company, reported profits of £981,000 pre-tax for the six months to March 31.

The outcome, achieved on turnover of £7.15m (£5.59m), compared with profits last time of £1.04m and was struck after reorganisation costs totalling £600,000, including a compensation payment of £150,000 to a former director for loss of office.

The costs masked a sharp improvement at the operating level – profits moved ahead from £1.19m to £2.07m – reflecting strong growth in fund management and currency benefits. Interest charges, however, jumped from £221,000 to £523,000 as a result of the transaction last September with Century Life.

Earnings per share dipped to 0.81p (0.97p) and the interim dividend is halved to 0.5p; a final of 1p is forecast, however, which would maintain the total at 1.5p.

Molynx

Molynx Holdings, the closed circuit television, security and building energy management systems maker, showed no improvement in the second half of 1992 and finished the year with a loss of £486,000.

It is omitting the final dividend to leave the total at 1.3p (4p).

The loss, against a profit last time of £1.93m, was made from sales of £24.5m (£22m).

Operating profit in CCTV fell from £1.16m to £515,000 reflecting the severity of recession in the UK during which nearly all main customers were reducing capacity.

Management systems moved from a profit of £1.18m to a loss of £578,000 which was spread across all markets of operation. Savage trading conditions in UK construction hit margins hard.

Gearing at the year-end was 82 per cent and steps will be taken to reduce borrowings.

Losses per share came to 1.9p (earnings 10.7p).

EFM Income

Over the year to April 30 net asset value per share at EFM Income Trust, a split capital trust, fell from 47.5p to 45.9p.

During the second half total assets of the fund appreciated by 13.2 per cent against a rise of 10.5 per cent from the FT-A All-Share Index.

But that was not enough to recover the underperformance of the opening half, and over the year total assets rose 3.4 per cent compared with an increase of 8.3 per cent from the Index.

On the income side net revenue fell from £840,000 to £755,000 from earnings per share of 5p (5.6p). The dividend is held at 4.875p with an unchanged final of 1.275p.

Lofs

AS A result of losses in its new vessel, London & Overseas Freighters saw pre-tax profit fall from $2.67m to $1.86m (£1.2m) in the year to March 31.

The accounts are now stated in dollars as the company moved its domicile to Bermuda a year ago. The dividend this time is 2 cents gross, which will be converted into sterling unless individual shareholders decide otherwise. The 1991-92 payment was 1.25p net.

Directors said the reduced profit could be blamed on trading of the acquired Nestor, now renamed London Enterprise. Its losses have been $630,000 since being transferred from Scoresby.

This year London Enterprise will be overhauled with consequent loss of revenue. In mid-July the newly built tanker London Pride should be delivered to trade under the profitable charter to Chevron.

Western Selection

At March 31 1993 net asset value of Western Selection, the investment finance company, was 18.82p, and 21.75p taking the market value of listed associated undertakings.

Operating profit for the half year to March fell from £27,000 to £24,000, but the previous period had to combat costs of £50,000 from discontinued operations. Earnings per share were 0.16p (losses 0.11p).

The half year included the dividend from Burlington Group. It was maintained but the gross amount fell because of the reduced credits available following the Budget.

Western has a 39.6 per cent holding in Creston. The latter plans an acquisition for shares, which Western supports, and that will reduce its stake to 15.3 per cent.

Peru seeks buyer for mining group

By Sally Bowen in Lima

THE PERUVIAN government officially announced yesterday that it was soliciting offers for *up to 100 per cent of its holding* in Centromin, the country's largest state-owned mining concern.

Chase Manhattan is handling the promotion. An information memorandum is available to *prospective purchasers on* signature of a letter agreeing to respect confidentiality.

Centromin owns and operates seven production units, all located in the high central Andes. The company was formed in 1974 after the expropriation by the then military government of the mines and La Oroya metallurgical complex previously owned by the Cerro de Pasco Corporation of the US.

The La Oroya complex, one of the world's largest, produces five main refined metals – copper, zinc, lead, silver and gold – *as well as 17 by-products* such as arsenic, antimony and sulphuric acid. Last year's sales topped $400m and more than 70 per cent of output was exported.

Centromin has been badly *decapitalised over the years,* although recent management changes have resulted in greater efficiency. But huge investment will be required from the new owner, not least in urgent environmental improvements at La Oroya.

Although no official announcement has yet been made, the government is believed to favour selling the operation as a whole.

Canada eases barley controls

By Bernard Simon in Toronto

THE ACCELERATING liberalisation of the North American grains trade has been underlined by a Canadian Wheat Board decision to loosen its hold on domestic barley sales and exports to the US.

The move reinforces other measures over the past four years that have eased trade controls and contributed to a big rise in grain trade between the US, Canada and Mexico.

The barriers will come down *further under the* North American trade agreement, which is due to be take effect next January. Under Nafta, Mexico has agreed to replace import permits on wheat with moderate tariffs. The Mexican wheat market has been opened significantly to US and Canadian exporters over the past year by channelling imports through the private sector rather than the now-disbanded government procurement agency.

Canadian farmers can in future choose between selling barley through the Wheat Board or through private traders. In addition, curbs on imports of US barley and barley products will be lifted on Aug 1. Mr Michael Wilson, Canada's trade minister, said the new rules would create "a true continental market for feed and malting barley which will benefit farmers on both sides of the border".

According to a recent consultant's report, the changes will lift Canadian barley producers' revenue by about 17 per cent. Critics of the new policy are concerned, however, that it could further weaken the authority of the Wheat Board and increase pressure for the board to give up its monopoly on wheat sales.

Thanks in part to the removal of import permits in 1991 under the US-Canada free trade agreement, the US has become Canada's second biggest market for durum wheat, used for pasta. Exports to the US soared to 276,000 tonnes, equal to about a quarter of the US durum market, from the start of the present season last August to mid-March, compared to 202,000 tonnes in the same period last year and virtually zero in 1990. Meanwhile, US shipments of pasta to Canada have jumped seven-fold.

The Wheat Board relinquished control over oats exports in 1989 at virtually the same time as bilateral import curbs were dropped. In addition, almost all Canada's flour mills have either been bought by or folded into joint ventures with US companies.

According to Agriculture Canada, *flour exports to the US* reached 51,000 tonnes in the first seven months of this season, more than double the average in the 1980s.

Opec ministers gather for a tough bargaining session

By David Lascelles, Resources Editor

MINISTERS OF the Organisation of Oil Exporting Countries gather in Geneva today to negotiate a new production quota *for the third* quarter of this year.

The indications are that bargaining will be tough and oil prices have weakened in the run-up to the meeting in the expectation that the oil producing cartel *will continue to* exceed its self-imposed production ceiling.

Analysts say that Opec production has recently amounted to about 600,000 barrels a day more than the official 23.6m b/d *total,* with Iran, Kuwait and Nigeria the main culprits.

Given the uncertainty in the market, a roll-over of the present arrangements might seem the most logical outcome.

However Opec will have to consider Kuwait's demand for an increase in its quota from 1.6m b/d to over 2m b/d now that its oil industry is getting back into shape. Kuwaiti officials have touring other Opec members ahead of the meeting to lobby for a bigger share.

The outlook for oil demand *shows only a small growth,* but the coming period will be influenced by stock building ahead of the winter months, and this extra demand could provide Opec with the leeway it needs.

Estimates of the likely stock build vary between 600,000 and 800,000 b/d, meaning that total demand for Opec oil could rise above 25m b/d in the period ahead.

If Opec ministers decide the raise the ceiling they will have to choose whether to share out the additional production on a pro rata basis, or on the basis of capacity.

Analysts at the London-based Centre for Global Energy Studies say that a pro rata agreement would principally benefit Kuwait, Saudi Arabia and Venezuela, but a capacity-based deal would mainly benefit Iran. In both cases, Nigeria would have to cut output.

The centre says Opec is in a difficult position, but will probably be forced into a compromise based on a combination of the two approaches.

BP-Statoil's joint project in Azerbaijan may cost $3bn

By Karen Fossli in Oslo

THE BP-Statoil alliance expects to invest up to US$3bn *on the development of the Chirakh oilfield in Azerbaijan,* according to an internal Statoil document that also spells out development plans

The two companies have been reluctant to reduce investment figures because of fears that negotiations now under way might be adversely affected.

The Anglo-Norwegian alliance, which holds a 50 per cent stake in the field, aims to complete negotiations with Azerbaijani officials in mid-1993 on development terms and conditions.

Socar, the Azerbaijani state oil company, holds the other 50 per cent. Of the Alliance total shareholding, Statoil, the Norwegian state oil company, holds 18 per cent, which means it will invest up to Nkr3bn (£285m) to cover its share of development costs.

That would be the biggest investment ever made by Statoil outside Norway and would have to be approved by the government and possibly by the parliament. Chirakh's oil reserves are estimated to be between 1bn and 1.5bn barrels of oil. It also has some gas.

One steel platform substructure is already in the field and two others are under construction in Baku, Azerbaijan's capital. According to preliminary plans, two drilling platforms at present under construction are aimed to be installed in the field at the end of 1995 with 20 wells drilled from each. In addition, the process platform may be installed at the end of 1996 and produce oil from 1997.

A third drilling platform is to be installed in 1997 from which 50 wells will be drilled. Production from the field is expected to be reached by 1999 at a rate of 200,000 barrels a day.

The alliance will build the platforms locally but the modules will have to be built in the West and transported via the Black Sea or the Baltic.

One 36 inch diameter oil pipeline and a 28 inch diameter gas pipeline from Chirakh are planned to link to an 800,000 barrels of oil a day capacity oil terminal and a gas terminal with capacity to handle 4.3bn cubic metres annually.

The oil is to be transported further through another pipeline to Iskenderun on the Turkish Mediterranean sea coast while the gas will be used locally.

Shephard gets warm welcome from her new flock

Britain's first female agriculture minister brings a fund of goodwill to a difficult job

FARMER'S VIEWPOINT

By David Richardson

INVITED TO comment on the appointment of Mrs Gillian Shephard as Britain's minister of agriculture in the recent cabinet reshuffle the chairman of the Norfolk branch of the National Farmers' Union replied: "It's the second good thing that's happened – the first was the rain and the second was Mrs Shephard's appointment."

Well, the soil had become very dry towards the end of May and Mr Charles Wharton, who made that comment, is a hard-headed commercial farmer as well as holding the NFU office. He knew the rain would be good for his income and he clearly hoped Mrs Shephard would be too – but with her he could only hope.

A native of Norfolk as well as representing a constituency in the south-west of the county, Mrs Shephard told that story against herself at the weekend during the first policy speech of her administration – once again in Norfolk. Her audience of farmers shared her amusement at the practical response of one of their neighbours. But they also seemed happy to give the new minister the benefit of the doubt, for the time being at least.

For Gillian Shephard has a good record among farmers in Norfolk. Before she became an MP in 1987 she had been an active and effective county councillor. During her meteoric rise to cabinet level, culminating in her last job as secretary of state for employment, she also found time to pursue farming issues in her constituency.

Notable were her successes in persuading plant health authorities, in what is now her own ministry, to modify punitive regulations relating to the sugar beet disease rhizomania and her advocacy of the case for fairer treatment of irrigating farmers during the drought and water shortage two years ago.

Farmers from her constituency say that she has listened to and, perhaps more to the point, understood their problems. Her family background as the daughter of a Norfolk smallholder and cattle dealer will continue to stand her in good stead as she battles with the complexities of the European Community's common agricultural policy and the General Agreement on Tariffs *and Trade over the years to* come. Indeed she says she relishes the task and now has the political post she always wanted.

In her speech last Friday evening she dropped a few hints about her approach to the job. She would, for instance, review the case for the winding up of the Potato Marketing Board. Previously, following rulings from Brussels, this was thought to be a certainty with only the timing in question. But Mrs Shephard apparently remains to be convinced that the functions of the Board should be sacrificed on the altar of the EC Commission and says she will look at it before making her decision.

Moreover one of the main planks of her approach to the EC, she said, would be to ensure UK agriculture benefits from European policies and does not suffer discrimination in comparison with other member states.

British farmers will be pleased with that assurance. They have heard many stories of farmers in other EC countries gaining unfair advantage. Whether these are all true or not, they believe UK farmers' and traders' relatively unblemished reputation for straight dealing has been tarnished by allegations of fraud against the Common Agricultural Policy. Recent stories concerning the illegal sale of intervention store wheat, said to have been taking place in Italy, are just the latest in a long line of such misdemeanours in other countries.

That said, UK farmers would resent the imposition of yet more red tape and regulations to avoid such problems. Indeed there is a good case for reducing those already affecting the industry. More than a year ago Mrs Shephard's predecessor, Mr John Gummer, admitted as much to an audience of farmers and said he would try to eliminate some of them. Perhaps significantly, that was just before the last general election.

In the meantime *little* appears to have been done to honour that pledge except that a few weeks ago Mr Nicholas Soames, one of Mr Gummer's and now Mrs Shephard's ministerial colleagues at the ministry of agriculture, repeated that "regulation must not inhibit enterprise".

Mrs Shephard, the first woman in the post, also thinks there are too many regulations and will be looking at the list to see what can be done. But, she adds, we must be careful to ensure that food health standards are maintained. There should, she says, be less secrecy and more openness regarding any food problems. That way minor difficulties should not become major crises.

All of which ties in with the new minister's concern for the image of agriculture. She believes, she says, that success in her new job is vital, not only to farmers but to the rural ethos and the economy as a whole. The food trade gap, she concedes, has been increasing in recent years as retailers have sourced more of their produce abroad. This is a trend that must be halted and reversed.

Moreover, the future of the Food From Britain promotional agency, which has been under review for several months, is one of many matters in her pending tray. Rumour has it that the recommendation will be that FFB should concentrate its limited resources on exporting food and leave the home market to look after itself. I for one do not believe that that would be appropriate. Import substitution must be of as much importance to British agriculture and the British economy as exports.

What is needed is a brave new initiative to promote home-grown food to British consumers. But what British farmers seek more than anything else is a long-term approach. They feel that for too long government and EC agricultural policies have been lurching from crisis to crisis. They yearn for vision and leadership of the kind not seen since *Labour's* Tom Williams was agriculture minister in the post-war government. They know the priorities are different now but they would support any minister who could provide positive signposts to the future.

So, is Gillian Shephard that minister? There are those in her Norfolk South West constituency who believe that she is. Perhaps they are forgetting the *fact that the whole system* of farming politics, controlled as much of it is by Brussels, is more complicated now than in the days of food shortages. Perhaps they are unaware of the limitations imposed on even a skilled and prominent member of the cabinet.

Eight days into her new job she was saying all the right things and, like many other Norfolk farmers, I wish her well. But, as she doubtless understands, her honeymoon period will only last as long as her policies are approved of by a farming community that has generations of collective experience in complaining.

White Nights partners keen to press on

By Leyla Boulton in Moscow

WESTERN PARTNERS in a Russian oil extraction joint *venture have said they hope to* be able to continue a project which is seen as a test of Russia's ability to attract foreign investment to its ailing energy sector.

Phibro Energy Production, a subsidiary of Salomon, which owns 45 per cent of the White Nights joint venture, had threatened to pull out of the project unless the Russian side, a state-owned company called Varyoganneftegas, radically changed its behaviour.

Mr Brian Lavers, Phibro's chairman, said on Friday that crisis talks, begun last month with Russian partners in the Siberian town of Raduzhny, would be resuming in 10 days time.

"We haven't solved all the problems. . . [but] we're definitely making progress towards being able to continue with the White Nights joint venture," he said.

Phibro has alleged that Varyoganneftegas had threatened to halt payment of contracts and of US workers on the site, and to stop efforts to obtain the necessary licences and export tax exemptions. The US company has spent some $115m on the project since it started two years ago.

Mr Lavers declined to give details of what kind of progress had been reached, but he said "the most important single issue" was to persuade the Russian government to start operating an export tax exemption for joint ventures created before January 1 1992. The exemption was announced last July but the Russian authorities had not yet set up a committee to implement it, he said, adding that in the mean time the company had paid $10m in tax.

Mr Robert Denham, chairman of Salomon, told Mr Lloyd Bentsen, the US Treasury Secretary, before he paid a brief visit to Moscow last week, that the action contemplated by Varyoganneftegas was "theft". Mr Bentsen noted on Friday that one of Russia's big problems was "capital to further modernise and increase investment in equipment. They can expand much faster if they get additional capital".

WORLD COMMODITIES PRICES

MARKET REPORT

GOLD drifted lower on the London bullion market, but dealers said that it had survived several tests *of support at $372 a troy ounce.* There was a lot of nervousness around the morning fix after Friday's 40-minute fix when the price jumped $3-$4. "Nobody really wanted to buy this morning and the price just came right off," one dealer said. The market found little encouragement from New York, which opened weaker. London's robusta **COFFEE** closed just above the day's lows, but dealers noted some early signs that the downward move might be running out of steam. The market continued to be driven by technical factors in New York, where the breach of support at 60 cents a lb for the *July contract late last week put* it on the defensive. New York raw **SUGAR** prices were easier at midday as the market continued to absorb Cuba's declaration of a 45-day force majeure last week. Analysts said that uncertainty over whether Russia and China would look for alternative supplies inspired nervousness. **COPPER** appeared to be consolidating on the LME after Friday's volatile trading, with three-month metal settling into a range between $1,820 and $1,850.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Jul)		+ or -
Dubai	$15.92-6.05z	-.255
Brent Blend (dated)	$17.92-7.95	-.365
Brent Blend (Jul)	$18.02-8.05	-.365
W.T.I (1 pm est)	$19.39-9.42z	-.465
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$206-208	
Gas Oil	$168-169	-3
Heavy Fuel Oil	$63-65	-2
Naphtha	$179-180	-1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$374.2	-0.4
Silver (per troy oz)♣	443.0c	-1
Platinum (per troy oz)	$386.00	-4.75
Palladium (per troy oz)	$123.60	-0.25
Copper (US Producer)	88.0c	-1
Lead (US Producer)	33.50c	-0.55
Tin (Kuala Lumpur market)	13.20r	-0.08
Tin (New York)	243.0c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	144.74p	+2.21*
Sheep (live weight)†♣	123.46p	[illegible]
Pigs (live weight)†	90.33p	-0.76*
London daily sugar (raw)	$280.1	+4.6
London daily sugar (white)	$278.5	-2.5
Tate and Lyle export price	£296.5	+6.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£166.5	
Wheat (US Dark Northern)	Unq	
Rubber (Jul)♥	59.50p	+0.50
Rubber (Aug)♥	59.75p	+0.00
Rubber (KL RSS No 1 Jul)	210.5m	+1
Coconut oil (Philippines)§	$445.0y	-2.5
Palm Oil (Malaysian)§	$370.0u	-2.5
Copra (Philippines)§	$288.0u	-2
Soyabeans (US)	£176.0z	+2.5
Cotton "A" index	59.70c	-0.35
Wooltops (64s Super)	357p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Aug u-Jun.z-July.. v-Oct/Dec ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.†Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX			($ per tonne)	
White	Close	Previous	High/Low	
Aug	281.30	283.00	283.50	278.00
Oct	279.80	282.00	281.60	279.00
Dec	[illegible]	285.20	285.70	283.10
Mar	287.60	285.50	286.60	

White 1159 (1697) Paris- White (FFr per tonne): Aug 1540.55 Oct 1549.01

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jul	18.06	18.31	18.37	18.01
Aug	18.25	18.47	18.51	18.19
Sep	[illegible]	18.65	18.63	18.35
Oct	18.53	18.79	18.84	18.52
Dec	18.65	18.90	18.73	18.65
IPE Index	18.34	18.44	18.36	18.34

Turnover 25410 (26833)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Jun	167.75	170.00	170.00	167.50
Jul	[illegible]	170.50	170.00	168.00
Aug	170.25	172.00	171.50	170.00
Sep	172.50	174.25	173.75	172.50
Oct	176.00	177.50	177.00	175.75
Nov	178.25	180.00	179.00	178.25
Dec	180.50	182.00	181.25	180.00
Jan	181.00	182.50	181.75	181.00
Feb	179.75	180.25	179.75	179.00

Turnover 13298 (9208) lots of 100 tonnes

TEA
Best liquoring East Africans remained fully firm reports the Tea Broker's Association, while brighter mediums attracted improved competition at dearer rates. Plainer descriptions were barely steady. Prices for Ceylon teas showed little change. Offshore only fair demand and mostly at lower levels except the brighter Zimbabwe offerings which proved appreciably dearer. Quotations: quality 185p/kg, nom good medium 132p/kg, medium 105p/kg, low medium 85p/kg. The highest price realised this week was 165p for a Rwanda pd.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Jul	663	664	664	661
Sep	677	679	680	675
Dec	698	699	700	697
Mar	716	720	720	716
May	732	735	735	732
Jul	748	749	749	747
Sep	761	762	764	761

Turnover: 2156 (5077) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 4 674.64 (682.75) 10 day average for Jun 7 680.15 (682.93)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Jul	[illegible]	906	897	886
Sep	902	918	910	898
Nov	912	928	920	908
Jan	911	934	920	909
Mar	920	936	925	921

Turnover: 4655 (2412) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 4 Comp. daily 53.72 (54.60) 15 day average 55.09 (55.00)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	95.5	98.5	99.0	98.7

Turnover 27 (11) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne	
	Close	Previous	High/Low	
Aug	145.00		145.00	
Oct	148.00		148.00	

Turnover 20 (25) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Jun	1425	1430	1430	1425
Jul	1315	1315	1320	1310
Aug	1315	1310	1315	1315
Oct	1405	1400	1400	1400
BFI	1585	1587	1585	

Turnover 91 (102)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Jun	131.50	133.85	131.50	
Nov	108.75	109.00	108.85	108.75
Jan	111.60	111.85	111.85	111.60
May	116.30		116.30	
Barley	Close	Previous	High/Low	
Sep	105.15	105.30		

Turnover: Wheat 63 (183), Barley 0 (5).
Turnover lots of 100 Tonnes.

PIGS – London FOX			(Cash Settlement) p/kg
	Close	Previous	High/Low
Nov	108.5	108.0	108.0

Turnover 5 (80) lots of 3,250 kg

LONDON METAL EXCHANGE						(Prices supplied by Amalgamated Metal Trading)
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 53,369 lots
Cash	1155-56	1146-7		1155-55.5		
3 months	1178.5-79	1169-9.5	1180/1165	1178-78.5	1174-75	190,080 lots
Copper, Grade A (£ per tonne)						Total daily turnover 101,726 lots
Cash	1193-94	1205-6	1201/1200	1201-01.5		
3 months	1209.5-10	1222-2.5	1220/1209.5	1216.5-17	1210-11	213,656 lots
Lead (£ per tonne)						Total daily turnover 2,297 lots
Cash	285-86	288.25-8.75	288.25/285.75	285.5-5.75		
3 months	275-75.5	275.5-6.0	276.50/275.50	276-76.5	275.5-5.75	20,810 lots
Nickel ($ per tonne)						Total daily turnover 8,558 lots
Cash	5650-60	5725-30		5655-60		
3 months	5715-20	5780-5	5750/5700	5720-25	5700-705	47,293 lots
Tin ($ per tonne)						Total daily turnover 2,178 lots
Cash	5210-20	5255-60		5197-202		
3 months	5270-75	5305-15	5260/5255	5255-60	5270-75	10,356 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 12,854 lots
Cash	944-45	949-51		943-43.5		
3 months	963-64	968-9	969/963	963.5-64	963-62.5	66,835 lots

LME Closing £/$ rate: SPOT: 1.5230 3 months: 1.5133 6 months: 1.5060 9 months: 1.4985

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	374.00-374.40	
Opening	374.75-375.25	
Morning fix	375.45	247.446
Afternoon fix	372.80	245.598
Day's high	376.00-376.50	
Day's low	372.50-373.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.48	6 months	2.54
2 months	2.49	12 months	2.59
3 months	2.51		

Silver fix	p/troy oz	US cts equiv
Spot	[illegible]	[illegible]
3 months	290.95	438.65
6 months	294.85	446.15
12 months	302.65	450.30

GOLD COINS	$ price	£ equivalent
Krugerrand	375.00-378.00	246.00-249.00
Maple leaf	385.10-387.50	-
New Sovereign	89.00-92.00	58.00-61.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Aug	Oct	Aug	Oct
1150	43	66	19	26
1175	30	51	31	38
1200	19	39	45	49
Copper (Grade A)	Calls		Puts	
1800	91	84	82	79
1850	67	90	74	104
1900	48	121	101	134
Coffee	Jul	Sep	Jul	Sep
900	12	48	24	46
950	2	30	64	78
1000		18	112	116
Cocoa	Jul	Sep	Jul	Sep
600	39	61	1	9
625	18	44	5	17
650	6	[illegible]	16	27
Brent Crude	Jul	Aug	Jul	Aug
1800	30	60	12	30
1850	7	30	37	50
1900	1	15		

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Jun	374.0	[illegible]	375.1	371.8
Jul	374.8	377.6	0	0
Aug	375.7	378.5	376.8	373.6
Oct	377.4	380.2	378.2	375.3
Dec	379.1	381.9	380.2	377.0
Feb	380.7	383.5	381.5	380.5
Apr	382.4	385.2	0	0
Jun	384.1	386.8	0	0
Aug	385.9	388.7	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	386.3	390.5	389.0	386.0
Oct	384.8	389.0	[illegible]	385.0
Jan	[illegible]	388.5	387.5	[illegible]
Apr	383.8	388.8	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Jun	[illegible]	443.4	438.0	438.0
Jul	441.5	444.5	444.5	436.5
Aug	443.1	446.1	0	0
Sep	[illegible]	447.7	447.5	439.5
Dec	449.3	452.3	452.5	444.0
Jan	449.9	452.9	0	0
Mar	453.9	457.0	456.0	450.0
May	[illegible]	460.7	0	0
Jul	460.8	463.9	0	0
Sep	464.4	[illegible]	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	81.40	[illegible]	82.10	81.40
Jul	81.75	81.45	82.25	81.45
Aug	82.00	81.65	82.50	82.20
Sep	82.25	81.85	82.60	82.00
Oct	82.45	82.05	0	0
Nov	82.70	82.20	0	0
Dec	82.95	82.40	83.20	82.60
Jan	83.10	82.55	0	0
Feb	83.25	82.70	0	0
Mar	83.45	82.90	83.60	83.10

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jul	19.45	19.77	19.72	19.37
Aug	19.66	19.97	19.92	19.60
Sep	19.80	20.08	20.03	19.74
Oct	19.88	20.14	20.09	19.84
Nov	19.92	20.18	20.14	19.91
Dec	20.00	20.20	20.13	19.94
Jan	20.01	20.20	20.15	19.97
Feb	20.02	20.19	20.11	20.02
Mar	20.01	20.18	20.13	20.01
Apr	20.10	20.17	20.10	20.10

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jul	53.50	54.14	53.90	53.25
Aug	54.20	[illegible]	54.60	54.00
Sep	55.15	55.66	55.60	55.00
Oct	56.05	56.64	56.60	56.00
Nov	57.20	57.81	57.60	57.10
Dec	58.05	58.73	58.55	58.00
Jan	58.65	59.18	59.00	58.60
Feb	58.70	58.88	59.00	58.70
Mar	57.50	57.53	57.70	57.50
Apr	56.15	56.13	56.30	56.15

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Jul	849	855	855	848
Sep	884	890	899	883
Dec	924	931	940	922
Mar	964	970	977	964
May	987	993	996	990
Jul	1014	1015	1020	1020
Sep	1035	1034	1043	1043
Dec	1066	1065	1066	1066
Mar	1101	1100	1110	1110

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	58.25	59.85	59.00	57.60
Sep	60.05	60.70	60.80	58.50
Dec	62.75	63.35	63.40	62.25
Mar	65.25	65.95	65.75	64.60
May	67.00	67.15	67.30	67.20
Jul	68.00	69.00	68.80	68.80
Sep	69.50	70.90	71.00	70.80

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	10.95	10.96	10.96	10.77
Oct	[illegible]	11.36	11.27	11.13
Mar	10.95	11.03	11.00	10.88
May	10.86	10.90	10.87	10.80
Jul	10.70	10.70	10.72	10.70
Oct	[illegible]	10.64	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Jul	60.71	60.33	60.80	60.40
Oct	59.56	59.32	59.80	59.45
Dec	59.25	58.80	59.30	58.95
Mar	60.05	59.77	60.10	59.90
May	60.73	60.50	60.70	60.70
Jul	61.25	60.85	0	0
Oct	60.95	60.55	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	107.80	110.45	109.50	107.85
Sep	111.10	113.50	112.60	111.00
Nov	113.05	115.30	114.50	113.05
Jan	114.85	117.25	116.00	115.00
Mar	115.85	118.30	117.50	116.00
May	116.45	118.50	117.00	116.50
Jul	116.95	119.00	117.00	116.50
Sep	116.95	119.00	0	0
Nov	116.95	119.00	0	0

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	Jun.7	Jun.4	mnth ago	yr ago
	1658.9	[illegible]	1657.4	1597.2
DOW JONES (Base: Dec. 31 1974 = 100)				
	Jun.4	Jun 3	mnth ago	yr ago
Spot	120.22	120.03	120.48	117.76
Futures	121.30	121.07	122.19	118.52

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jul	592/0	588/2	593/4	589/4
Aug	589/6	586/0	591/4	588/0
Sep	587/6	582/6	589/4	584/4
Nov	589/0	584/0	590/2	[illegible]
Jan	595/6	590/2	596/6	593/0
Mar	603/4	598/4	603/4	600/4
May	605/2	600/0	606/0	603/0
Jul	607/0	602/4	608/0	605/0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	20.78	20.69	20.81	[illegible]
Aug	20.90	20.80	20.92	20.77
Sep	21.02	20.95	21.04	20.88
Oct	21.14	21.09	21.14	[illegible]
Dec	21.37	21.30	21.40	21.25
Jan	21.46	21.41	21.46	[illegible]
Mar	21.67	21.61	21.67	21.60
May	21.90	21.82	21.90	21.80

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Jul	188.8	187.4	[illegible]	[illegible]
Aug	188.2	186.7	188.6	186.8
Sep	[illegible]	186.0	188.3	186.8
Oct	187.8	186.0	188.1	186.7
Dec	[illegible]	186.8	188.6	186.8
Jan	[illegible]	186.5	188.5	187.5
Mar	188.6	186.5	188.8	188.0
May	189.0	[illegible]	189.0	188.5

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Jul	222/0	219/2	222/2	220/0
Sep	227/2	224/2	227/6	225/4
Dec	234/6	231/4	235/0	232/4
Mar	242/0	239/2	242/2	239/6
May	246/2	244/2	246/4	244/6
Jul	250/2	248/4	250/4	248/4
Sep	246/0	243/0	246/0	244/4
Dec	243/2	243/0	[illegible]	242/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Jul	286/6	[illegible]	287/0	285/2
Sep	290/6	289/0	[illegible]	288/6
Dec	302/6	301/0	303/0	300/6
Mar	309/0	307/2	309/2	307/0
May	307/2	306/0	307/2	307/2
Jul	307/2	305/4	307/4	304/4

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	77.125	76.475	77.200	76.550
Aug	75.475	75.200	75.600	75.225
Oct	75.650	75.550	75.825	75.475
Dec	75.525	75.425	75.775	75.425
Feb	75.025	74.850	75.325	74.950
Apr	76.125	75.925	[illegible]	76.000
Jun	73.225	73.050	[illegible]	73.050

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	51.650	50.950	51.750	50.950
Jul	49.850	49.250	50.100	49.250
Aug	48.075	47.375	48.200	47.300
Oct	42.825	42.375	42.950	42.300
Dec	43.775	43.425	43.850	43.425
Feb	43.600	43.500	43.650	43.400
Apr	42.500	42.400	42.600	42.500
Jun	47.700	47.700	0	47.650

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	[illegible]	38.200	38.650	37.900
Aug	37.200	37.350	37.850	37.050
Feb	41.225	40.825	[illegible]	[illegible]
Mar	40.500	40.175	41.000	40.500
May	40.600	40.600	0	0

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LONDON STOCK EXCHANGE

Advance renewed in poor turnover

By Terry Byland, UK Stock Market Editor

VAGUE AND poorly substantiated hopes for a reduction in UK base rates continued to sustain the London stock market yesterday as it opened the new trading account. Volume was unimpressive and, in spite of a 14.9 points gain, the FT-SE 100 Index was off the top at the close and still lowly placed in its latest trading range.

The hope that a further cut in domestic interest rates might provide a stimulus for consumer spending lent support to the brewery, and to some other selected consumer sectors, at first. But much of the encouragement to the UK stock market came from good company results.

In early trading, which was helped by a somewhat technically-inspired gain in stock index futures, the Footsie index advanced by nearly 20 points to brush the 2,850 mark. But investment support was not sufficient to breach the 2,850 level and the market softened towards the close as Wall Street came in with an early loss of 8 points on the Dow.

The final reading showed the FT-SE Index at 2,844.8 for a net gain of 14.9. The FT-SE Mid 250 Index rebounded sharply, closing 9.8 up at 3,184.9, within seven points of the all-time high reached last week.

But trading volume, at only 456m shares through the Seaq system made a poor comparison with the 625.6m traded on Friday – although Friday's business was worth £1.27bn in retail, or customer, value and thus maintained the recovery in genuine investment activity of the past fortnight. Trading in non-Footsie stocks made up around 64 per cent of yesterday's Seaq total, at the high end of recent daily averages.

The speculation of a cut in UK base rates by Mr Kenneth Clarke, the new UK chancellor of the exchequer, continued despite doubts expressed by several leading UK equity strategists. Mr Peter Thorne at Nikko commented that, while base rates may be cut by 0.5 per cent "as evidence accumulates" that the economic recovery is faltering, this may add only 50 points to the Footsie Index.

At Strauss Turnbull, Mr Ian Harnett warned that recent company results could prove highly significant. He points out that the price earnings multiple on the FT-A All Share 500 Index is now around 19.3 per cent, raising queries once again over valuations of the London stock market.

The debate over domestic interest rates was little affected by a further dip in sterling yesterday , nor by the modest improvement in government bond prices. The City of London has now accepted that developments on base rates may depend on the political outlook, and in particular upon the important speech in London next week by Mr Clarke.

Speculation on interest rates is likely to focus on the May retail sales figures which are due on June 16, just 24 hours before Mr Clarke delivers his Mansion House speech.

The London market was helped yesterday by a pause in the US selling of pharmaceutical stocks from the US. Although Zeneca remained out of favour, ICI again found the buyers. Oil stocks, also important components of the Footsie Index, remained very firm, with some of the second line North Sea stocks finding buyers.

Support for the domestic consumer issues appeared to be lightly-based.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group†	2,500	70	+1½
Abbey National†	1,500	408½	+8½
Albert Fisher	885	62	+2
Allied-Lyons†	1,500	533	+13
Anglian Water†	880	458	-7
Argos	58	305	
Argyll Group†	1,800	344	+8
Arjo Wiggins†	2,000	183	
Ass. Brit. Foods†	232	458	+1
Ass. Brit. Ports	734	430	+2
BAA†	1,000	770	+5
BAT Inds.†	3,700	430	+3
BET	5,700	111	-4
BICC	1,000	386	-2
BOC†	703	680	-2
BP†	2,100	308½	+1
BPB Inds.	2,600	235	+8
BT†	3,200	407	
BTR†	3,300	610	+8
Bank of Scotland†	3,900	141	+3½
Barclays†	698	458	+2
Bass†	1,700	482	+16
Blue Circle†	1,500	256	+8
Booker	211	371	-1
Boots†	1,300	440	+6
Bowater†	408	485	+5
Brit. Aerospace	3,700	387	+17
British Airways†	1,000	292	-4
British Gas†	10,000	289	+½
British Land	1,200	332	+12½
British Steel†	4,800	103	+1
Bunzl	50	127	+1
Burmah Castrol	72	781	+1
Burton	888	80½	-1
Cable & Wire.†	1,200	729	-8
Cadbury Schweppes†	804	446	
Calor Group	535	238	+8
Carlton Comms.†	387	787	-3
Coats Viyella†	1,000	230	+2
Comm. Union†	862	580	+2
Cookson	633	201	
Courtaulds†	438	894	+6½
Dalgety	50	427	+3
De La Rue†	309	875	+8
Dixons	843	212	+2
Eastern Elec.	350	481	
East Midland Elec.	284	446	-1
Eng China Clays	242	419	+4
Enterprise Oil†	255	467	
Eurotunnel Units	101	425	+3
FKI	1,100	139	+1½
Fisons†	2,800	157	-3
Foreign & Col. I.T.	478	227½	+½
Forte†	2,700	208	+1
Gen. Accident†	1,800	582	
General Elect.†	3,800	321	
Glaxo†	3,300	591	+8
Glynwed Int.	10	282	-3
Granada†	1,100	400	+1
Grand Met.†	2,500	405	+4
GUS A†	126	1830	+5
GRE†	2,200	184	+8
GKN	318	465	-3
Guinness†	1,700	474	+8
HSBC (75p shs)†	1,000	820	
Hammerson 'A'	775	354	+1
Hanson†	4,100	231½	+3
Hanson Warrants	197	23¾	+¼
Harrisons Crosfield	354	172½	+½
Hillsdown	269	145	+1
IMI	47	271	+7
ICI†	2,000	697	+8
Inchcape†	931	585	+4
Johnson Matthey	288	449	+1
Kingfisher†	1,100	594	+8
Kwik Save†	808	752	-3
Ladbroke†	2,500	188	+2
Land Securities†	888	588	+12
Laporte	303	623	+7
Legal & General†	801	468	+3
Lloyds Abbey	455	419	+8
Lloyds Bank†	1,300	580	+1
LASMO†	2,700	161	+4
London Elec.	918	465	+1
Lonrho	1,300	116½	-1
Lucas	398	134½	+½
MB Caradon†	288	289	+1
MEPC	669	440	+4½
MFI	354	139	+1
Manweb	236	617	+5
Marks & Spencer†	2,500	341	+4
Midlands Elec.	451	464	+8½
Morrison (Wm.)	185	155	-1
NFC†	570	280	+2
NatWest Bank†	1,900	484	-1
National Power†	3,300	353	+10
Next	135	165	
North West Water†	388	453	-4½
Northern Elec.	830	507	+4
Northern Foods†	1,700	244	-1
Norweb	137	603	+8
Pearson†	437	459	
P & O†	1,900	620	+5
Pilkington	1,100	135	+1
PowerGen†	4,200	368	+12½
Prudential†	1,400	317	+2
RMC	974	770	+13
RTZ†	1,700	641	+1
Racal	1,800	217	+5
Rank Org.†	2,800	720	+8
Reckitt & Colman†	339	582	+8
Redland†	737	489	+5
Reed Intl.†	683	645	-2
Rentokil†	362	194	+3
Reuters†	794	1382	-7
Rolls Royce	5,600	143	+3
Rothmans†	182	615	+5
Ryl Bk Scotland†	1,900	289	+2
Royal Insurance†	2,800	292	+3
Saatchi	704	159	-8
Sainsbury†	884	491	+8
Scottish & New.†	1,090	447	+7
Scot. Hydro-Elect.†	817	398	+7
Scottish Power†	1,200	317	+6
Sears†	2,500	97½	-½
Sedgwick	1,800	173	-2
Seeboard	910	500	-3
Severn Trent Water†	888	484	
Shell Transport†	1,500	610	+7
Siebe†	888	472	+9
Slough Ests	1,100	215	+3
Smith (W.H.) A	374	457	+8
Smith & Nephew†	975	146	+1
SmKl Beecham†	839	449	-4½
SmKl Beechm Uts.†	663	395	-3
Smiths Inds.	149	345	+4
Southern Elect.†	345	485	
South Wales Elect.	414	545	+8
South West Water	686	468	-2
South West. Elect.	486	471	
Southern Water	513	487	
Standard Chartd.†	543	741	-4
Storehouse	745	206	+8
Sun Alliance†	2,000	354	+4
T&N	571	184	+3
TI Group†	1,400	323	-3
TSB†	1,400	135	+1
Tarmac	3,500	138	+2
Tate & Lyle†	825	382	
Taylor Woodrow	142	117	+1
Tesco†	1,800	219	+2
Thames Water†	2,100	471	-8
Thorn EMI†	282	888	+4
Tomkins†	1,200	229	+5
Trafalgar House	12,000	105	-4
Unigate	860	335	+4
Unilever†	1,400	1035	+10
United Biscuits†	541	386	+3
Utd. Newspapers	1,800	583	-8
Vodafone†	7,500	465½	+11
Warburg (SG)	138	720	-1½
Wellcome†	782	750	-7
Welsh Water	235	561	+5
Wessex Water	405	566	-1
Whitbread 'A'†	757	474	+6
Williams Hldgs.†	371	308	+2
Willis Corroon	508	197	+2
Wimpey	187	180	+1
Wolseley	128	633	+1
Yorkshire Elect.	240	505	-1
Yorkshire Water	242	483	-8
Zeneca†	4,400	617½	-3½

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:	May 24	Jun 7	Jun 21
Option Declarations:	Jun 3	Jun 17	Jul 1
Last Dealings:	Jun 4	Jun 18	Jul 2
Account Day:	Jun 14	Jun 28	Jul 12

*New time dealings may take place from 8.30am two business days earlier.

Dividend hopes lift PowerGen

Much better results than expected from PowerGen, the electricity generator, together with an upbeat statement on current year prospects and the carrot of an accelerated dividend payout, fuelled a substantial surge in the generator's shares.

The PowerGen stock price raced up to equal it's year's high of 368p, up 13, on 3.9m shares traded, as the market absorbed the news.

"The company's profits were a good £5m above the most optimistic of analysts' forecasts and the 14 per cent increase in the dividend total was at the top end of expectations," said one utilities specialist.

The real thrust of the shares' advance, the analyst added, came from the company's statement that it intends to bring down the level of dividend cover from the current 3.5 times to a level of 2.5 to 2.7 times: "a simple calculation means that even on a modest level of earnings growth the dividend will grow by a minimum 15 per cent over the next two to three years."

Residual market worries over heightened interference from the electricity industry regulator Offer are minimised, according to specialists, by the fact that the government will want to unload its remaining 40 per cent stake in PowerGen, and also in National Power, within the next couple of years. "The government can't put the squeeze on the company if they are hell bent on selling the rest of the shares," said one trader. National Power, trading ex the 1.2p final dividend, added 10 at 353p.

Trafalgar rights fear

Volume in international conglomerate Trafalgar House rose to a hefty 12m, making it the day's most heavily traded stock and the shares gave up 4 to 98p, as fears that the company would soon be calling on investors for more cash swept through the market.

Speculation of a rights issue was fuelled by reports in the weekend press and by the close of business yesterday a feeling that a cash call was inevitable had grown. One analysts said: "The balance sheet is still stretched and I just can't see how they can avoid one." However, Mr Geoff Allum at NatWest Securities said: "It will be difficult for them to get a rights issue away. I think it is more likely that Trafalgar will attempt disposals."

Such a move would be the third time in less than two years that Trafalgar had called on the market, having raised £204m in February this year through a sterling issue and £310m through a rights issue in July 1991.

Vodafone bought

News that US investors have continued to increase their holdings in Vodafone, the cellular phones group, coincided with the shares extending last week's strong showing and moving up to their highest level since mid-1989.

Only last week the company announced that US holdings of Vodafone stock had increased to 186.5m shares, or 18.5 per cent of the group's issued capital. Yesterday, Vodafone said US investors now spoke for 19.13 per cent, or 192.3m shares in the company.

Vodafone is scheduled to report preliminary figures this morning, with the more optimistic analysts looking for profits in the region of £325m and a dividend total of around 7p. There are also strong hopes in the market that Vodafone will deliver an upbeat message on current prospects, including good news of "usage" or call rates in its cellular phone business.

Vodafone shares touched 471p at one point yesterday, prior to ending the day a net 13 higher at 467½p. Turnover was a heavy 7.5m shares.

The profits warning issued by Jeyes Group saw the shares plunge to 315p before closing a massive 122 off at 317p.

Drug stocks continued to underperform therest of the UK market, and were again restrained by a sluggish opening performance by Wall Street.

Glaxo managed a minor rise at 591p and SmithKline "A" edged up 5½ to 449p. Wellcome, however, unsettled by the Aids Conference being held this week in Berlin, and worries about the Retrovir patent trial scheduled to get underway in the US on June 28, dipped 7 more to 753p, extending its recent run of poor performances.

Zeneca eased 3½ to 617½p and the new nil-paid 4¼ to 19¼p. ICI, on the other hand just failed to piece the 700p level, closing another 8 to the good at 697p.

Two big block trades in British Gas shares, each of 3.9m shares and both transacted at 289p, catapulted Gas to second place in the list of London's most heavily traded stocks. Gas settled a shade harder at 308½p.

Lasmo extended its recent bout of strength, the shares moving up to touch 162p before closing a net 4 higher at 161p after turnover of 2.7m. Dealers reported further sizeable support for the shares from US sources, ahead of the current round of presentations to US institutions and the forthcoming full ADR listing.

Lasmo escaped being dropped from the prestigious FT-SE 100 index last week when the newly-demerged Zeneca entered the index, and may well escape the drop into the FT-SE Mid 250 index when the FT-SE steering committee meets to consider its quarterly review of constituents tomorrow.

Shell, due to deliver a presentation to institutions in London next Monday after a series of meetings with international institutions, outpaced BP, closing 7 better at 610p. Strauss Turnbull, the stockbroker, was an aggressive buyer of the shares, and told its clients that the stock was "massively undervalued."

Talk that business services group BET would announce a cut in the dividend when it reports figures next week led to heavy dealing in the stock. Volume rose to 5.7m as the shares gave up 4 to 111p.

Speculation that British Aerospace was likely to win an order for 200 Hawk aircraft with a total value of up to £4bn brought a strong advance to make it one of the day's best performing stocks.

The shares pushed through the 380p barrier, the price of the 1991 rights issue, for the first time since 1991 to end 17 better at 387p, in trade of 3.7m.

Further orders particularly for the Tornado are also said to be in the pipeline.

A badly executed sell order caused a slide in Simon Engineering. The shares closed 9 lower at 37p.

Engineering group James Wilkes was once again the subject of bid speculation with stake holder Suter named as the likely predator. The former closed 8 up at 88p, while the latter was unchanged at 151p.

The sentiment in BAe boosted several other stocks in the aerospace sector thought to be potential beneficiaries of orders for BAe. These included Rolls-Royce, 3 firmer at 143p, and Smiths Industries 4 up at 345p.

Hartstone Group, the hosiery manufacturer hit last month by a profits warning, staged a minor rally, closing 5½ up at 45p.

The stores sector was bouyed by better-than-expected consumer credit figures for April. Trading volume increased steadily during the day.

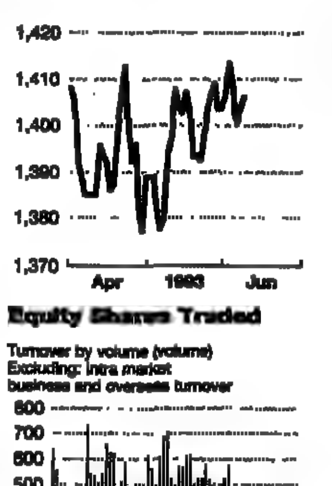
A more cautious analyst said many stores were largely rallying from disappointing performances over recent and a particularly poor trading day on Friday.

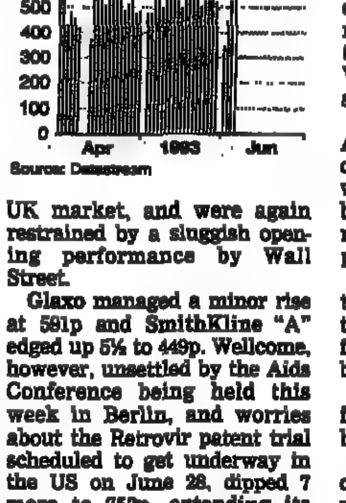
Kingfisher closed 8 up at 594p and Boots rose 6 to 441p. Marks and Spencer were 4 firmer at 341p. Property shares continued to ride the wave of market confidence triggered by Mr George Soros's move into the sector. British Land added 8 more to 332p xd.

Jacques Vert, designer, maker and retailer of women's fashions, outperformed a generally subdued textile sector. The shares moved up 9 pence to 85p. Courtaulds Textiles advanced 6 pence to 371p in thin trading.

MARKET REPORTERS:
Steve Thompson,
Joel Kibazo,
Christine Buckley.

■ Other statistics, Page 23





Source: Datastream

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (178).
AMERICANS (3) Chrysler, Dana, Time Warner, BANKS (10) Asahi, Banco Santander, Dai Ichi, Mitsubishi, Mitsui, Sanwa, Sumitomo, Toyo, Yasuda, Royal Bk. Scot., BREWERS (1) Mansfield, BLDG MATLS (7) Anglian, CRH, Evered Bardon, Johnston, RMC, Rugby, Sharpe & Fisher, BUSINESS SERVS (3) Chubb, CIS, Reed Exec., CHEMS (2) Holliday, ICI, CONGLOMERATES (1) Chillington, CONTG & CONSTRCN (4) Higgs & Hill, McAlpine, Tilbury Douglas, Vibroplant, ELECTRICALS (7) Chloride, Critchley, Motorola, Pifco, Do A, TDK, Western Selec., ELECTRONICS (4) Alphameric, Control Techs., Eurotherm, Hewlett-Packard, ENG AERO (1) Br. Aerospace, ENG GEN (6) Black & Decker, Bridon, Dobson Park, Fairey, Wilkes, Wyko, FOOD RETAILING (3) Brake Bros., Dairy Farm, M & W, HEALTH & HSEHOLD (2) Greenstone, Quality Care Homes, Regina, HOTELS & LEIS (1) Whitegate, INSCE COMPOSITE (1) Mitsui, INSURANCE LIFE (1) Britannic, INV TRUSTS (37) Anglo & O'seas, Bankers, Brazilian Inv., Do Wts., Br. Empire Secs., Do Wrts., Dunedin Worldwide, EFM Java, Electra, Fimg. Japanese, For. & Colonial Pac., For. & Colonial Smlr. Co's, French Prop., Do Wts., Gartmore Emrg. Pacific, Do Wrts., Gartmore Value Zero Pf., Govett Strategic, Henderson Strata, JF Fldg. Wrts., JF Pacific Wrt., M & G Dual, M & G Recovery Zero Pf., Menaldn, Martin Currie Pac., Do Wts., New Zealand Inv., Overseas Inv., Pantheon Wrts., RIT Cap. 2½pc Cv. '00, River & Merc. Cap., Second Cons., St David's Zero Pf., SHIRESCOT, TR Tech. Zero Pf., Turkey Tst., Do Wts., MEDIA (8) Central ITV, Euromoney, Osprey, Quarto, SelecTV, Telegraph, Trinity, Watmoughs, MTL & MTL FORMING (1) Br. Steel, MISC (3) LGW, Le Creuset, Nu-Swift, MOTORS (10) Central Mtr. Aucts., Channel, First Tech., Kwik-Fit, Lex, Lookers, Mid-States, Perry, Volkswagen, Volvo, OIL & GAS (8) Aran Energy, Aviva, Chevron, Gt. Western, Ranger, Royal Dutch, OTHER FINCL (8) Aberdeen Tst., Cater Allen, Edinburgh Fd. Mngrs., Invesco MIM, Do 9pc '95-00, Mitsubishi, Smith New Court, St James's Place, OTHER INDLS (2) Hewitt, Tex, PROP (25) Bilton, Br. Land, Bucknall, Chesterfield, Conrad Ritblat SG, Daejan, Dares, Derwent Valley, Dwyer, Frogmore, Helical Bar, Land Sec., Lon. & Assoc., Lon. Merchant, Do Dfd., Do 7¾pc Cv. '00-05, Peel, Moorfield, PSIT, Peel, Smith (J), Southend Prop., Do Wts., St Mowden, Tops Ests., STORES (3) Austin Reed, French Connectn., Moss Bros., TELE NETWORKS (1) Vodafone, TEXTS (1) Victoria Carpets, TRANSPORT (4) Cathay Pacific, Clarkson, IoM Steam, Stagecoach, PLANTATIONS (1) Rowe Evans, MINES (6) Bisichi, Impala Plat., Monorco, Navan, Northam Plat.
NEW LOWS (24).
BRITISH FUNDS (2) Treas. 12¾pc '93, Treas. 13¾pc '93, BANKS (1) Bk. Scot. 9¾pc Pf., CHEMS (2) Caird, Plysu, CONTG & CONSTRCN (2) Andrews Sykes, Donelon Tyson, Smart, ENG GEN (1) Simon Eng., FOOD MANUF (1) Finlay, HEALTH & HSEHOLD (2) Haemocell, Jeyes, INV TRUSTS (2) Contra-Cyclical, St David's Inc., MISC (2) Hornby, Pentland, OIL & GAS (1) Lasmo 9¾pc Pf., OTHER FINCL (2) Caledonia, S & U, OTHER INDLS (1) Williams 5¾pc Pf., STORES (1) Dixons Div. Cv. Pf., WATER (3) Anglian, South West, Yorks.

FINANCIAL TIMES EQUITY INDICES

	June 7	June 4	June 3	June 2	June 1	Year ago	*High	*Low
Ordinary share	2224.2	2213.1	2225.4	2230.2	2211.7	2057.3	2299.5	2124.7
Ord. div. yield	4.15	4.17	4.14	4.13	4.17	4.49	4.52	4.07
Earning yld % full	5.28	5.30	5.27	5.26	5.31	6.56	6.36	5.26
P/E ratio net	23.88	23.79	23.95	24.00	23.77	19.01	24.00	19.40
P/E ratio nil	22.28	22.19	22.34	22.38	22.17	17.64	22.38	18.14
Gold Mines	189.1	192.2	187.4	182.5	200.6	105.5	202.7	60.0

*for 1993. Ordinary share index since compilation: high 2299.5 10/3/93 - low 49.4 26/6/40
Gold Mines index since compilation high: 734.7 15/2/83- low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2215.2	2216.9	2217.3	2221.1	2223.4	2223.6	2223.3	2227.4	2223.6	2227.7	2214.2

Volume	June 7	June 4	June 3	June 2	June 1	Year ago
SEAQ Bargains	28,163	32,399	29,263	29,217	26,889	22,545
Equity Turnover(£m)†	-	1271.3	1310.7	1185.8	841.0	772.6
Equity Bargains†	-	37,499	35,765	33,036	32,497	25,367
Shares traded (mil)†	-	591.6	531.0	456.9	355.2	297.9

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

THE derivatives sector opened quietly but came to life at mid-morning, driving the underlying equity market ahead for a brief period. Overall, however, traders commented that business was thin and that investors remained unconvinced of the outlook for domestic interest rates and for share prices.

Attention was switching towards the September contract on the FT-SE 100 Index, which will take over this month from the June contract as the market's chief driving force. At one stage the June contract, now at an effective nil premium against fair value, was strong against the cash market but trade was two-way and there was not enough volume to enable the best levels to hold.

At the close the June contract was on offer at 2,450, but it began to drift off later as Wall Street made a slow start and trading volume in London died away.

Business in traded options was reduced to 26,069 lots from Friday's 28,691, with the FT-SE 100 option decreasing its contribution from 8,796 contracts to 6,319. Among the individual stock options, British Gas stood out with 3,955 contracts transacted, with Marks and Spencer on 3,650 close behind.

British Steel was also in demand, recording 2,300 contracts, although this reflected no significant interest in the underlying stock.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2844.8 +14.9	3184.9 +9.8	1406.70 +6.40

	Jun 7	Day's change %	Jun 4	Jun 3	Jun 2	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2844.8	+0.5	2829.9	2852.8	2863.0	2645.8	6.14	4.05	20.28	48.39
FT-SE Mid 250	3184.9	+0.3	3175.1	3183.8	3191.4	2721.5	5.80	3.68	21.99	41.69
FT-SE-A 350	1420.2	+0.5	1413.5	1423.2	1427.9	1297.2	6.06	3.96	20.85	22.91
FT-SE SmallCap	1628.45	+0.2	1625.07	1626.31	1623.04	-	4.41	3.49	31.88	21.85
FT-SE SmallCap ex Inv Trusts	1640.97	+0.1	1638.70	1639.38	1635.81	-	4.88	3.69	28.78	22.72
FT-A ALL-SHARE	1406.70	+0.5	1400.30	1409.32	1413.55	1283.32	5.96	3.93	21.10	22.44
1 CAPITAL GOODS([illegible])	995.27	+0.5	989.93	994.47	995.14	877.86	4.52	3.97	29.61	16.56
2 Building Materials(27)	1105.57	+1.0	1094.87	1097.40	1096.90	1006.79	3.96	4.40	36.15	18.38
3 Contracting, Construction(28)	967.62	+0.5	962.98	964.58	963.76	969.54	1.35	3.39	80.00†	13.43
4 Electricals(15)	2929.98	—	2929.70	2933.65	2922.39	2658.89	5.10	4.60	24.94	65.13
5 Electronics(37)	2693.71	+0.2	2688.57	2692.94	2694.76	1988.17	5.88	2.97	21.51	20.43
6 Engineering-Aerospace(7)	403.28	+2.4	393.90	393.94	393.95	378.52	‡	3.88	‡	5.23
7 Engineering-General(51)	583.61	+0.3	581.89	565.46	588.31	557.61	6.48	3.71	19.27	8.32
8 Metals & Metal Forming(11)	427.20	+0.5	425.28	427.83	421.41	358.42	3.63	2.87	41.66	2.36
9 Motors(18)	403.65	+0.6	401.15	401.74	399.39	375.67	4.68	5.46	30.02	9.59
10 Other Industrials(18)	2054.92	+0.3	2048.22	2066.42	2078.38	1800.27	5.55	4.36	21.68	48.40
21 CONSUMER GROUP(235)	1631.33	+0.4	1624.32	1636.21	1645.11	1689.94	6.97	3.56	17.55	24.07
22 Brewers and Distillers(29)	1849.20	+1.4	1824.33	1841.39	1848.18	2178.39	8.74	3.96	13.89	33.21
25 Food Manufacturing(22)	1285.48	+0.4	1279.77	1287.57	1294.08	1276.74	7.61	3.94	15.87	22.26
26 Food Retailing(18)	3014.23	+0.9	2987.18	3025.24	3054.65	2911.54	8.47	3.47	14.98	36.84
27 Health & Household([illegible])	3467.98	-0.3	3477.15	3507.24	3553.97	4044.64	8.37	3.35	18.33	41.20
29 Hotels and Leisure(20)	1303.07	+0.5	1296.04	1293.32	1298.76	1376.33	6.65	4.52	18.60	25.55
30 Media(33)	1973.42	-0.2	1977.68	1985.58	1990.20	1621.71	4.99	2.60	24.76	23.60
31 Packaging and Paper(24)	852.22	-0.1	852.75	855.64	855.82	835.37	5.66	3.45	21.54	13.24
34 Stores(39)	1141.23	+0.7	1133.39	1141.63	1143.58	1065.63	6.37	3.15	20.19	18.81
35 Textiles(20)	796.85	+0.3	794.61	798.78	800.12	729.87	5.78	3.85	21.96	12.70
40 OTHER GROUPS(140)	1480.04	+0.3	1474.98	1492.73	1495.00	1318.42	7.24	4.29	16.95	20.30
41 Business Services(27)	1589.87	+0.3	1584.70	1606.64	1606.48	1461.72	5.94	3.17	20.44	14.38
42 Chemicals(23)	1551.40	+0.5	1544.08	1542.08	1539.35	1535.88	0.49	4.29	‡	33.39
43 Conglomerates(11)	1429.70	+0.4	1423.47	1433.15	1431.11	1371.68	7.34	5.26	16.34	29.85
44 Transport(15)	2957.28	+0.3	2948.05	2958.79	2959.53	2871.15	5.60	3.89	22.29	42.52
45 Electricity(16)	1736.17	+1.4	1711.70	1733.30	1752.58	1327.89	12.61	4.27	10.13	31.13
46 Telephone Networks(4)	1730.64	+0.2	1726.82	1768.73	1768.49	1471.50	5.81	3.86	21.32	1.63
47 Water(13)	3206.79	-2.1	3275.93	3303.68	3340.00	2890.98	13.82	5.36	7.97	57.67
48 Miscellaneous(31)	2252.94	+0.7	2238.29	2262.34	2253.86	2069.47	7.42	4.53	18.23	42.61
49 INDUSTRIAL GROUP([illegible])	1434.54	+0.4	1428.48	1440.41	1444.99	1370.91	6.57	3.89	18.85	21.18
51 Oil & Gas(18)	2476.91	+0.6	2461.46	2467.62	2465.40	2161.59	5.63	4.42	22.52	48.01
59 "500" SHARE INDEX([illegible])	1526.89	+0.4	1519.80	1531.92	1535.61	1446.39	6.47	3.94	18.20	23.32
61 FINANCIAL GROUP([illegible])	1031.06	+0.5	1025.44	1028.43	1031.99	765.00	3.99	4.11	38.80	20.91
62 Banks(9)	1408.03	+0.4	1402.18	1410.86	1421.83	975.40	4.89	3.83	27.74	28.48
65 Insurance (Life)(6)	1987.09	+0.6	1975.32	2001.28	2011.87	1495.89	4.84	4.49	25.99	47.49
66 Insurance (Composite)(7)	652.98	+0.9	646.97	631.59	629.08	540.44	‡	4.76	‡	15.60
67 Insurance Brokers(10)	805.43	-0.4	808.35	804.78	800.71	957.64	6.93	4.48	19.40	14.24
68 Merchant Banks(6)	677.37	-0.8	682.83	[illegible]	684.21	614.28	7.20	3.91	17.12	9.54
69 Property(28)	904.44	+1.3	893.02	[illegible]	901.61	678.61	4.81	4.42	27.30	16.71
70 Other Financial(23)	366.74	+1.0	362.98	367.95	357.64	293.74	8.44	4.53	20.79	4.71
71 Investment Trusts(108)	1486.11	+0.3	1484.56	1484.54	1483.78	1223.50	2.21	2.75	45.34	18.51
99 FT-A ALL-SHARE([illegible])	1406.70	+0.5	1400.30	1409.32	1413.55	1283.32	5.96	3.93	21.10	22.44

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2830.4	2834.2	2834.8	2838.1	2843.8	2843.4	2843.3	2848.3	2845.0	2849.8	2830.1
FT-SE Mid 250	3171.1	3172.3	3174.7	3176.9	3180.8	3180.8	3181.7	3183.5	3184.8	3185.1	3170.3
FT-SE-A 350	1413.3	1414.9	1415.8	1417.2	1418.4	1419.8	1419.3	1421.4	1420.9	1422.2	1413.1

Time of FT-SE 100 high: 15.31 ; low: 8.38

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Constrcn	1875.4	1872.1	1875.7	1877.5	1879.0	1880.1	1881.3	1882.1	1882.8	1883.4	1874.1	+9.3
Health&H	1046.5	1047.1	1043.0	1046.9	1046.8	1046.7	1046.6	1046.3	1046.0	1044.2	1046.7	-2.5
Water	1330.9	1331.8	1331.8	1331.8	1332.2	1323.2	1321.3	1321.4	1324.5	1323.7	1352.3	-28.6
Banks	1707.7	1707.4	1706.8	1710.4	1718.4	1716.2	1716.0	1716.4	1711.6	1711.4	1704.3	+7.1

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address.
The increase in the size of the FT-Actuaries All-Share Index from January 4 1993 means that the FT 500 now contains more stocks. It has been renamed the FT "500". † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.
The FT-SE 100, the FT-SE Mid 250 and the FT-SE Actuaries 350 Indices are compiled by the London Stock Exchange and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.
 The FT-SE Actuaries Share Indices are audited by The WM Company.

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
Treas 12½pc 1993‡‡	100[illegible]	-⅛	103¼	100[illegible]	12.41	5.59
Funding 6pc 1993‡‡	100	—	100¼	99[illegible]	6.00	5.71
Treas 13¾pc 1993‡‡	103¼	-⅛	106[illegible]	103⅝	13.27	5.59
8¼pc 1994	101[illegible]	—	102[illegible]	101[illegible]	8.[illegible]	5.94
14½pc 1994‡‡	108[illegible]	—	109¼	108[illegible]	13.[illegible]	[illegible]
Exch 13½pc 1994	105[illegible]	—	109[illegible]	106¼	12.[illegible]	[illegible]
Treas. 10pc Ln. 1994‡‡	104[illegible]	—	105[illegible]	104[illegible]	9.[illegible]	[illegible]
Exch 12½pc 1994	107[illegible]	—	110[illegible]	107[illegible]	11.[illegible]	[illegible]
Treas 9pc 1994‡‡	104[illegible]	—	105[illegible]	103[illegible]	8.[illegible]	[illegible]
12pc 1995	109[illegible]	—	111[illegible]	109¼	11.0[illegible]	[illegible]
Exch 3pc Gas 90-95	95[illegible]	—	96[illegible]	94	3.14	[illegible]
10¼pc 1995	107[illegible]	—	109[illegible]	107[illegible]	9.[illegible]	[illegible]
Treas 12¾pc 1995‡‡	114[illegible]	-⅛	116[illegible]	113¾	11.1[illegible]	[illegible]
14pc 1996	117[illegible]	-⅛	125[illegible]	117[illegible]	11.[illegible]	[illegible]
15¼pc 1996‡‡	121[illegible]	-⅛	125[illegible]	121[illegible]	12.[illegible]	[illegible]
Exch 13¼pc 1996‡‡	118[illegible]	-⅛	120[illegible]	116½	11.[illegible]	[illegible]
Conversion 10pc 1996	109[illegible]	-⅛	111½	108[illegible]	9.14	[illegible]
Treas 13¼pc 1997‡‡	119[illegible]	-⅛	122[illegible]	118[illegible]	11.11	[illegible]
Exch 10½pc 1997	111[illegible]	-⅛	113[illegible]	110[illegible]	9.[illegible]	[illegible]
Treas 8¾pc 1997‡‡	106[illegible]	-⅛	108[illegible]	105[illegible]	8.[illegible]	[illegible]
Exch 15pc 1997	128[illegible]	-⅛	132[illegible]	127[illegible]	11.71	[illegible]
9¾pc 1998	109[illegible]	-⅛	112[illegible]	109[illegible]	8.[illegible]	[illegible]
Treas 7¼pc 1998‡‡	100[illegible]	-⅛	103[illegible]	99[illegible]	7.20	[illegible]
7¼pc 1998 A‡‡	100[illegible]	-⅛	101[illegible]	99[illegible]	7.21	[illegible]
Treas 6¾pc 1995-98‡‡	98[illegible]	-⅛	101	97[illegible]	6.[illegible]	[illegible]
Five to Fifteen Years						
Treas 15½pc '98‡‡	134[illegible]	-⅛	138[illegible]	133[illegible]	11.[illegible]	[illegible]
Exch 12pc 1998	119[illegible]	-⅛	122⅝	118⅝	10.06	7.65
Treas 9½pc 1999‡‡	109	-⅛	112½	108[illegible]	8.72	7.80
Exch 12¼pc 1999	120[illegible]	-⅛	124[illegible]	120[illegible]	10.15	7.78
Treas 10½pc 1999	113¾	-⅛	117[illegible]	112[illegible]	9.24	7.80
Conversion 10¼pc 1999	112[illegible]	-⅛	117[illegible]	112[illegible]	9.09	7.67
9pc 2000‡‡	107	-⅛	110[illegible]	105	8.41	7.84
Treas 13pc 2000	126[illegible]	-⅛	131	125½	10.28	8.04
10pc 2001	111[illegible]	-⅛	115[illegible]	109[illegible]	8.98	7.99
14pc '98-1	125⅝	—	129½	125[illegible]	11.14	7.67
9¾pc 2002	110[illegible]	-⅛	114[illegible]	108⅝	8.[illegible]	8.12
8pc 2003‡‡	99[illegible]	-⅛	102[illegible]	97[illegible]	8.02	8.02

Undated

Notes	Price £	+ or -
Consols 4pc	48½	+¼
War Loan 3½pc‡‡	40½	-⅛
Conv 3½pc '61 Aft.	61¾	-¼
Treas 3pc '66 Aft.	34⅝	+½
Consols 2½pc	30¼	-½
Treas. 2½pc	29	-⅛

BRITISH FUNDS - Cont.

[illegible]

BRITISH FUNDS - Cont.

Index-Linked

[illegible]

OTHER FIXED INTEREST

[illegible]

Continued on next page

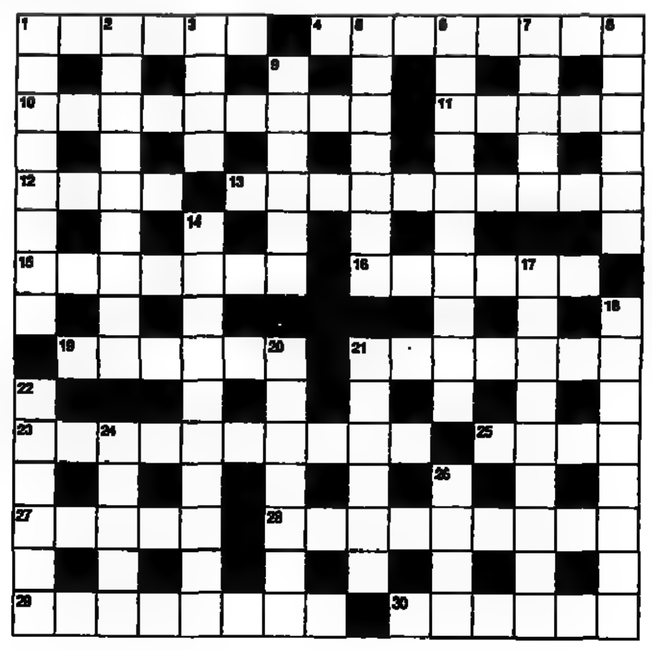
CROSSWORD

No.8,170 Set by CINEPHILE

F stands for the same word throughout the clues, but on five occasions its meaning is cryptic

ACROSS
1 F less than 500 years afterwards (6)
4 Fallacy of backing one with money in a taxi (3,5)
10 An apprentice sailor with flower of gypsum (9)
11 F, F with F (5)
12 F that sounds unhurried (4)
13 Articled horseman with two nearest stars (3,7)
15 Nothing changes in reproductive organs (7)
16 Ditch that has fever, foot and mouth (6)
19 F of two hands (6)
21 F that sounds up-to-date (7)
23 F of admirals: lo! they are toothless (10)
25 F with some feathers (4)
27 Excuses for gunfire? (5)
28 Expose in the sun's heat, heartlessly (9)
29 Unintelligible remarks? I disagree! (8)
30 Protestant F (6)

DOWN
1 Roman official to square F (8)
2 Sweetheart, F of a moat with rain (9)
3 F that moves sideways (4)
5 A cost cut coming up to F (7)
6 Hybrid F began upheaval in vehicle (10)
7 F raised first on fifth of August (5)
8 Call about lady F (6)
9 On hearing these words (an abstainer with an abstainer's) (2,4)
14 Fs of rose and pea at capital racecourse (10)
17 Pretender, young one mostly, getting a touch of the sun? (9)
18 F of a thousand at speed in ugly rush (8)
20 F, upsetting police, crazy (7)
21 Pick a number of stockings with a hole in? (6)
22 F for mother and child (6)
24 F, F of that in female monkeys (5)
26 F that sounds like two (4)



JOTTER PAD

Solution to Puzzle No.8,169

POTATO TRIBUNAL
GALORE JACOBEAN
SPITFIRE ADHERE
SIGN EMIGRATION
SPOTTEDDOG ACED
OPTIMA INTRIGUE
FALTERED RETINA
DISPERSE ALMOND

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or –	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17xd	–½	20⅞	15⅞	14,227	2.5
Allegheny & W	♥	384p	–33	617p	399p	303.5	3.2
Amdahl		382p	+1	891p	302½p	408.5	0.9
Amer Cyanamid		34	–½	38⅝	31¾	3,095	3.1
Amer Express		19xd	+⅜	19½	14⅞	9,143	3.3
Amer T & T		40⅝xd	+¼	40⅞	33¼	54,026	2.0
Ameritech		48⅞	+⅞	52⅛	46	21,180	4.8
BankAmerica		28⅞xd	—	38⅛	27⅞	9,869	3.1
Bankers NY		47¼xd	+¼	61⅛	42⅝	3,782	4.2
Bell Atlantic		36¼	+⅛	38⅞	32¼	15,748	4.6
BellSouth		35	–⅛	39⅞	32⅞	17,290	5.0
Bethlehem Steel	♥	12⅝xd	+½	13⅞	10	1,142	–
Bowater		1415pxd	–44	1662p	1335p	512.7	1.8
CPC		28xd	+½	34⅝	28	4,241	2.9
Cadiz Land Inc	♥	132p	+13	134p	53p	–	–
California Engy		[illegible]	—	1478p	1068p	247.2	–
Chase Manhattan		19⅝xd	–⅛	24½	17⅞	3,068	3.9
Chrysler		30¼xd	+⅞	30⅞	21¼	9,004	1.2
Citicorp		18¼xd	—	20⅞	13⅞	6,871	–
Colgate-Palm		38¼xd	–⅛	45⅝	35¼	5,787	2.2
Cent'l Bank		1321p	–29	1677p	1278p	1,597	2.5
Dana		35⅞xd	+1⅞	35⅞	29⅞	1,633	2.9
Data General		707p	–15	981p	593p	195.1	–
Decora Inds	♥	132p	+1	146p	109p	–	–
Dun & Brad		38⅝	–⅜	42⅞	37⅞	6,894	4.0
Eaton		58¼	–⅞	59⅝	50⅝	2,036	2.4
Echlin		17¼xd	+⅞	18⅞	15⅞	1,017	2.5
FPL		24⅝xd	+⅛	27⅞	23⅞	4,473	6.3
Ford Motor		36⅞xd	+⅞	38⅞	28⅞	17,724	1.7
Gen Elect		61⅞xd	+⅞	62⅞	53⅞	52,843	2.6
General Host	♥	584p	–6	723p	556p	–	3.9
Gillette		32⅞xd	+⅞	42⅞	31½	7,196	1.6
Hasbro		20⅞	—	20⅞	20⅞	1,819	0.7
Honeywell		24⅞xd	+⅞	24⅞	20⅞	3,374	2.3
Houston Inds		29⅞	–⅞	33⅞	28¼	3,772	6.5
Ingersoll-Rand		22⅞xd	+⅞	25	19⅞	2,389	1.9
Lockheed		41¼	+⅛	42⅞	35⅞	2,531	3.2
Lowe's		2418p	–42	2452p	1573p	1,768	0.7
Merrill Lynch		49¼xd	–⅛	60⅞	37	5,048	1.5
Morgan (JP)		43¼xd	+⅞	48½	38⅞	8,283	3.5
Morris (Philip)		33xd	+½	52⅞	28⅞	30,365	5.0
NYNEX		58	—	64⅞	52¼	11,598	5.2

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

Notes	Price	+ or -	1993 high	low	Yld Gr's	NAV	Dis or Pm(-)
Scottish Inv ‡†□	186xd	+½	201	183	2.9	238.3	17.8
Warrants □	46½	—	49	36	–	–	–
Scot Mortgage ‡□	190	-1	201	178	2.6	224.5	15.1
Scot National Inc ‡N□	84	—	86½	83	11.2	–	–
Cap □	25	—	28	16	–	57.1	56.2
Stepped Pf	151¼	—	155¾	150¾	5.0	–	–
Zero Div Pf	210	—	212	207	–	–	–
Warrants	3½	—	5	3	–	–	–
Scot Value †s□	80½	—	80½	71	2.9	81.3	1.3
Sec Alliance ‡†	1445	+2	1503	1390	3.2	1616.4	10.6
Second Consid □	135	—	139	88	–	208.1	35.1
Second Market ‡s	320	—	328	256	0.8	355.6	10.2
Sec Tst Scot ‡□	83½	+1	84½	74½	4.9	83.7	0.3
Select Assets □	123	+2	130	109½	1.2	171.0	28.4
Eq Ind Serl	131	-1	134	128	4.1	–	–
Eq Ind Serll	131	-1	134	128	4.1	–	–
SHIRESCOT ‡†	128	+1	128	104	5.1	126.2	-1.3
Shires ‡M	258xd	+2	282	231	6.2	250.1	-2.2
11pc Cv Ln '03/04	£127½	—	£131½	£115½	8.6	–	–
Siam Select	127	-1	138	87	0.2	137.9	7.9
Warrants	34	-1	38	15	–	–	–
Smaller Cos □	116xd	-1	116	78	2.9	115.8	0.7
Warrants	36	—	37	14	–	–	–
Sphere Inc □	21½	—	21½	14	18.6	34.6	37.9
Zero Div Pf	87¼	—	87¼	80¾	–	–	–
Samit	59	-1	60	38	3.0	94.2	37.4
TR City of Lon □	136¼	+1	140¾	126	4.4	131.2	-3.8
TR Euro Growth ‡□	104	+1	109	76	1.6	116.4	11.1
Ptg Sub	55	—	58	27	2.1	–	–
TR Far East Inc ‡†□	135	—	139	112	4.2	135.1	0.1
Warrants	38	—	38½	22	–	–	–
TR High Inc	120	—	120	102	6.3	114.2	-5.1
Sub	29	—	31	25	6.5	–	–
TR Pacific ‡□	139	—	141	110	0.3	139.9	0.7
TR Prop ‡□	26xd	+½	26¼	17	4.3	32.0	19.0
TR Smaller ‡□	173	—	173	146	2.7	183.9	5.9
TR Technology ‡□	61	+1	69	47	3.8	187.5	69.9
Units	2200	—	2280	2010	1.7	2585.9	14.9
Stepped Pf	123½	+½	125½	111½	5.6	–	–
Zero Pf	207½	+½	207½	200½	–	–	–
Temple Bar ‡□	302	—	316	283	5.6	319.8	5.6
Templeton Em □	279	+1	284	218	1.1	262.3	-6.2
[illegible]							

MERCHANT BANKS

Notes	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
Barings 8pc Cm 2nd Prf.	95	-½	108½	93	11.9	10
9¾pc Non-Cum Prf	118	—	127½	113	48.4	10
Close Bros ‡†	308	—	378	250	161.9	3
Hambros ‡□	340	-1	356	243	591.9	5
7½pc Cv Pf	141	—	149½	111½	211.5	6
Joseph (L) ‡	358	—	363	313	18.8	5
Kleinwort Benson □	413	-1	420	312	641.8	4
Rea Bros ‡□	42	—	47	39	16.5	1
Schroders ‡h	950	—	987½	407½	954.8	1
NV h	808	—	815	387½	228.2	1
Singer & Fried ‡□	84	—	88	48	123.1	5
Warburg (SG) ‡N□	728xd	-1½	741	529	1,546	3
6pc Cv Pf	248	—	258	185	105.5	3
Wintrust	208	—	215	188	17.6	5

METALS & METAL FORMING

Notes	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
ASW N□	219	—	233	81	146.5	3
Apollo Metals ‡†	110xd	—	128	84	12.9	3
Ash & Lacy ‡	156	—	178	143	40.7	5
Billam (J)	241	—	300	128	3.89	2
Brit Steel N□	103	+1	103	54	2,080	[illegible]
CI □	24	—	28	17	20.8	5
Castings	186xd	+1	187	[illegible]	38.0	2
Chamber & Hill	135	—	145	113	9.87	5
Cohen (A) ‡	350	—	400	350	8.49	[illegible]
Cook (Wm) □	196	+2	209	120	42.8	[illegible]
Cooper (F) ‡□	71	+1	77	43	25.2	[illegible]
Downiebrae G	77	—	83	28½	13.6	0
Ferraris ‡†G	59	—	68	39	3.48	2
Firth (GM) □	12	—	16½	8	4.05	–
Garton	94	—	99	79	3.58	6
Glynwed Intl □	282	+2	311	245	601.5	6
Johnson & Firth □	62	+½	64	51	73.8	7
Johnson Matthey ‡†□	449	+1	537	438	831.1	2
Kobe Steel Y	212	+2	213	147	6,011	1
Lee (A) ♦s□	160	—	165	105	53.9	4
Liveread ‡	109	—	128	78	13.1	4
[illegible]						

OIL & GAS - Cont.

PACKAGING, PAPER & PRINTING - Cont.

TELEPHONE NETWORKS

MINES - Cont.

Notes	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
[illegible]						
Greenwich Res ‡□	16¼	-¼	22¼	5	14.8	–
Harmio Gold C$	[illegible]	+¼	[illegible]	[illegible]	604.8	1.6
Ivernia West IE ‡†□	61	—	67	31	25.8	–
Kells Minis IE ‡†	12	—	13	6	0.29	–
Konnara ‡□	16½	-¼	18½	6	10.5	–
Malinga Res	16	+1½	26½	13½	1.77	–
Navan Res IE ‡	58	+4	60	25	9.87	–
8pc Ln Notes	58	+4	60	25	10.4	–
Oryx Gold	62½	—	71	47	–	–
‡‡Ovoca Res IE	3½	—	3½	3½	0.24	–
RTZ ‡N□	641xd	+1	709	607	6,621	4.1
Vizcaya ‡	5¼†	—	6¼	2¾	3.06	–

TEXTILES

PROPERTY

MISCELLANEOUS

INVESTMENT COMPANIES

OTHER FINANCIAL

TRANSPORT

WATER

MEDIA

OTHER INDUSTRIALS

SOUTH AFRICANS

STORES

MOTORS

PLANTATIONS

MINES

PACKAGING, PAPER & PRINTING

OIL & GAS

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ¶ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring +44 81-643 7181 (open 24 hours including weekends) or fax +44 81-770 0544, quoting the code FT7285. Reports will be sent the next working day, subject to availability. Please remember to state the weekly changing code above.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✓) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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FT MANAGED FUNDS SERVICE

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Smith & Williamson Unit Tst Mgrs (1600)F
1 Riding House St, London W1A3AS. 071-637 5377

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
S & W American	5	259.3	259.3	274.8	+1.4	0.81
S & W Capital	5	117.5	117.5	125.0	-0.1	1.85
S & W Cash	0	100.93	100.93	100.93	+0.01	5.40
S & W European	5	111.8	111.8	118.3	-0.3	1.20
S & W Far Eastern	5	149.2	150.8	159.6	+1.8	0.00
S & W Growth	5	125.4	125.4	134.3	-0.3	1.29
S & W Income	5	111.8	112.6	119.2	-0.8	4.67
S & W Magnum	5	123.7	123.7	132.6	-0.2	1.56
S & W Smlr Sccs	5	315.0	321.8	340.8	-0.7	0.45
S & W Thoroughbred	5	143.2	143.2	153.8	-0.1	1.48

For Societe Generale Touche Remnant see Henderson

Sovereign Unit Tst Mngrs Ltd (1000)F
12 Christchurch Rd, Bournemouth 0202 298422

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
Cash	1	49.73	49.73	50.23	+0.01	5.3
Central Finance	5½	55.61	55.93	59.65	-0.08	8.0
Ethical	5½	52.11	53.03	56.41	-0.24	5.0
European Growth	5½	56.37	56.75	60.53	-0.01	3.1
Income	5½	61.38	51.80	55.31	-0.24	5.7
Intl Growth	5½	78.90	79.53	84.83	+0.28	3.0
Managed	5½	69.74	70.06	74.73	-0.06	3.6
UK Growth	5½	55.83	56.18	59.92	-0.25	4.4

Standard Life Tst Mngmt Ltd (0730)H
3 George St, Edinburgh EH2 2XZ 0800 393777

Robert Fleming Asset Mngmt Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Am Exempt	£619.50	628.82	+6.14	1.50
Gen Exempt	£152.57	156.77	-0.43	3.63
Jap Exempt	£625.99	637.18	+7.02	0.94
Pacific Exempt	£155.45	159.20	+0.90	1.57
Conti Euro Exempt	£118.06	120.37	-0.20	2.54

Foreign & Colonial Unit Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Balanced Acc Jun 2	182.8	190.3	+0.7	3.58
Balanced Inc Jun 2	181.3	188.8	+0.7	3.58
Latin American Acc Jun 2	97.10	98.40	+0.4	1.00

Funds in Court*

	Bid Price	Offer Price	+ or -	Yield Gross
Capital May 14	563.83	567.08	—	3.7
Gross May 14	209.34	211.03	—	9.05
High Yield May 14	334.70	337.35	—	7.71

* Restricted to monies under Court control

Govett (John) Unit Mngmt Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Exempt	108.26	112.82	-0.13	3.33

Henderson Unit Trust Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Pensions Mngd	61.54	62.79	+0.16	2.87
Henderson TB				
Ex European	1318	1398	+5	3.63
Ex Nth American	1400	1419	+13	1.55
Ex Pacific Basin	972	990	+14	1.40
Ex Smaller Cos Inc	1910	2021	-2	4.31
Ex Smaller Cos Acc	2046	2165	-2	4.31

INVESCO MIM Management Ltd

Exempt Funds

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
Providence Capital Life Assc. Co Ltd - Contd.				
Alpha Pension Funds				
UK Alpha		227.8	-1.2	-
US Alpha		121.6	+1.7	-
Gilt Alpha		85.2		-
Gold Alpha		90.2	+2.9	-
Japan Alpha		47.1	+0.8	-
US Dollar Alpha		74.8	+1.3	-
Yen Alpha		81.0	+1.1	-
DM Alpha		90.6	+0.1	-
European Alpha		85.6	-0.2	-
Provident Life Assoc Ltd				
Provident Way, Basingstoke RG21 2SZ 0256 470707				
Gold Range (Pensions)				
Discretionary Fund		158.9	-0.5	-
Provident Mutual Life Assc. Assn.				
[illegible] 0438 732000				
Managed Ord	416.5	438.4	+0.9	-
Managed Init	294.8	310.3	+0.5	-
Equity Ord	621.8	654.5	+0.4	-
Equity Init	440.2	463.4	+0.2	-
Index Linked Gilt Ord	193.7	202.9	-0.1	-
Index Linked Gilt Init	141.2	150.7	-0.2	-
Overseas Equity Ord	337.5	355.3	+2.7	-
Overseas Equity Init	238.9	251.5	+1.8	-
Property Ord	226.9	238.8	+0.6	-
Property Init	160.6	169.1	+0.4	-
Fixed Interest Ord	258.9	271.6	-0.2	-
Fixed Interest Init	182.6	192.2	-0.3	-
Deposit Ord	196.4	206.7	---	-
Deposit Init	139.1	146.4	---	-
Pension Funds				
Managed Ord	549.3	578.2	+1.5	-
Managed Init	388.9	409.4	+1	-
Equity Ord	847.1	891.7	+0.6	-
Equity Init	599.7	631.3	+0.4	-
Pen Ind Lkd Gilt Ord	220.5	232.1	-0.1	-
Pen Ind Lkd Gilt Init	163.1	171.7	-0.1	-
Overseas Equity Ord	392.2	412.8	+3.2	-
Overseas Equity Init	277.7	292.3	+2.3	-

	Bid Price	Offer Price	+ or -	Yield Gross
Scottish Amicable				
150 St Vincent St, Glasgow 041-248 2323				
Life Funds (First Series)				
Managed	405.8	427.2	+3.00	-
Equity	506.3	533.0	+4.10	-
Property	239.4	252.0	---	-
International	403.4	424.7	+2.50	-
Japanese	119.0	125.3	+1.20	-
Asia Pacific	138.7	146.1	+0.10	-
European	108.2	113.9	+0.80	-
American	142.8	150.4	+0.80	-
Fixed Interest	334.6	352.2	+2.40	-
Index-Linked Gilt	185.3	195.1	-0.10	-
Cash	219.8	231.4	---	-
Life Funds (Second Series)				
Managed	112.9	118.9	+0.80	-
Equity	108.8	114.6	+0.90	-
Property	100.6	105.9	---	-
International	124.7	131.3	+0.80	-
Japanese	119.3	125.6	+1.30	-
Asia Pacific	136.1	143.3	+0.10	-
European	107.3	113.0	+0.70	-
American	139.6	147.0	+0.80	-
Fixed Interest	125.8	132.5	+0.90	-
Index-Linked Gilt	118.4	124.7	-0.20	-
Cash	109.0	114.8	---	-
Pension Funds				
Building Society	173.1	182.3	---	-
Managed (Init)	235.8	248.1	+2.30	-
Managed (Acc)	466.2	490.8	+4.60	-
Equity (Init)	264.4	278.4	+3.00	-
Equity (Acc)	523.1	550.7	+5.90	-
Property (Init)	142.7	150.3	---	-
Property (Acc)	282.4	297.3	---	-
International (Init)	240.0	252.7	+1.80	-
International (Acc)	474.9	499.9	+3.70	-
Fixed Interest (Init)	224.5	236.4	+1.80	-
Fixed Interest (Acc)	444.3	467.7	+3.60	-
Cash (Init)	154.0	162.2	---	-
Cash (Acc)	304.8	320.9	+0.10	-
Others				
Capital Guarantee Bond	99.1	104.4	-0.60	-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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JERSEY (SIB RECOGNISED)

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	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Hill Samuel Fund Mgrs - Contd.						
International Currency Fund						
Sterling Managed £	3½	£32.64	32.84	33.82	+0.80	-
US Dollar Managed $	3½	$31.25	31.25	32.38		-
Sterling	0	£29.48	29.48	29.48	+0.07	4.81
US Dollar	0	$40.06	40.06	40.06	+0.01	1.78
Deutschemark	0	DM69.65	69.65	69.65	+0.04	6.50
Japanese Yen	0	Y5143	5143	5143	+1	1.67
Swiss Franc	0	SF52.45	52.48	52.48	+0.01	3.63
Irish Punts	0	I£25.44	25.44	25.44	+0.01	6.41
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 284242						
Lloyds Tst. Gilt	3½	£10.198	10.210	10.576	—	7.57
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 606005						
Intl Circuit Portfolio	6	£1.2285	1.2285	1.3027		0.10
Gilt	3	£0.9898	0.9898	1.0204		7.44
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey 0534 70009						
Prudential Currency Fd (formerly Vanbrugh Currency Fd)						
Income (A & B)	5	213.1	213.1	222.8	+2.2	3.39
Growth (C & D)	5	314.3	314.3	330.1	+3.3	5
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Govt Secs Fd	4	55.48	55.48	57.77	+0.01	8.88
Standard Bank Fund Mgmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 87567						
International Bond	5		15.88	16.61	-0.07	4.58
Sterling Bond	3		9.667	9.998	-0.012	8.60
Sterling Cap			42.46	42.47	—	5.41
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	102.19	102.19	105.26	+0.04	6.00
Gilt & Fixed Interest	3	117.27	117.27	121.58	+0.04	7.82
Blue Chip & Gilt Edged	3	80.13	80.13	83.29	-0.06	3.90
International Bond	5	134.48	134.48	141.49	+0.61	6.01
UK Equity	5	252.23	259.84	273.51	+0.53	1.27
International Equity	5	177.33	180.18	189.84	+1.06	0.35
Far Eastern	5	167.52	169.77	178.07	+2.80	0.00
European	5	124.76	125.49	132.09	+0.80	0.00

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Bank Von Ernst & Cie AG						
Marktgasse 63/65, 3001 Berne, Switzerland 31224051						
Von Ernst Global Portfolio						
Equity Sub-Funds						
UK Equity		£-	12.18	-	-0.07	-
UK Smaller Co's Eqty		£-	14.30	-	-0.02	-
Nth American Equity		$-	10.62	-	-0.04	-
US Smaller Co's Eqty		$-	10.37	-	-0.01	-
Pacific Basin Equity		$-	11.99	-	-0.01	-
Japanese Equity		Y-	637	-	-1	-
European Equity		DM-	8.17	-	—	-
Bond Sub-Funds						
Sterling Fixed Int		£-	12.37	-	—	-
Sterling Fixed Int Dis		£-	10.94	-	—	-
European Fixed Int		DM-	10.82	-	—	-
European Fixed Int Div		DM-	8.12	-	+0.01	-
International Sub-Funds						
Global Equity		$-	10.33	-	-0.04	-
Global Bond		$-	11.79	-	-0.02	-
Global Bond Div		$-	10.33	-	-0.02	-
Global Managed		$-	9.77	-	-0.01	-
Banque Scandinave a Luxembourg SA						
16 Boulevard Royal, L-2449, Luxembourg						
Scandifonds						
Scandifond Equity Fund						
Equity Int. Acc	5	$-	16.37	17.19	-0.15	3.17
Equity Global	5	$-	1.47	1.55	-0.01	-
Equity Natural Res	5	$-	1.1	1.16	—	-
Equity Japan Acc	5	Y-	117.13	123	-0.4	-
Equity UK	5	£-	1.36	1.44	-0.01	-
Equity Nordic	5	$-	1.28	1.35	-0.03	-
Equity North America	5	$-	1.96	2.07	-0.03	-
Equity Mediterranean	5	$-	0.88	0.95	-0.01	-
Equity Cont Europe	5	$-	1.43	1.51	-0.02	-
Scandifond Far East						
Far East Global	5	$-	3.56	3.75	-0.02	-
Scandifond Bond Fund						
Bond Int. Acc	1	$-	12.13	12.39	-0.05	6.64
Europe Bond Acc	1	$-	1.56	1.59	-0.03	7.16
Bond DEM Acc	1	DM-	1.21	1.23	—	6.64
Bond USD Acc	1	$-	1.39	1.41	—	5.79
Bond Swedish Acc	1	SKr-	16.27	16.44	+0.08	10.19
Scandifond International Sicav						
Intl Emerging Markets	5	$-	1.05	1.11	—	-
Barclays Diversified Portfolio						

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar softens after big boost

THE DOLLAR softened slightly against the D-Mark yesterday following the US currency's powerful performance on Friday in the wake of the May payroll report, *writes James Blitz*.

Friday's non-farm payroll figure, showing a net rise of 209,000 on the month, was well above market expectations, and the dollar rose 3 pfennigs that day to close at DM1.6220 on what dealers said was a huge volume of dollar buying.

However, at least one dealer talked of some selling into the dollar rally on Friday evening, and that mood continued yesterday as bank dealers took profits following the big move. As a result, the dollar fell back less than half a pfennig on the day to close at DM1.6190.

Mr Steve Hannah, chief economist at IBJ International in London, believes the dollar's next move against the D-Mark is still upwards, because of the familiar problems of the German economy.

But he believes that President Bill Clinton's political problems are becoming an increasing hindrance to the dollar's rise in the short term.

The Democrats' loss of Texas in last weekend's senate by-election may make it more difficult for the President to get his energy tax bill through Congress. At the same time, the President has been facing new difficulties getting officials nominated to key posts in the administration. "Some of Mr Clinton's political problems need to be cleared up before the next big move upwards," said Mr Hannah.

By contrast, the D-Mark continued to look soft against most European currencies yesterday, above all the peseta, which rallied powerfully in the wake of the victory for Mr Felipe Gonzalez's PSOE in the Spanish elections.

Foreign exchange dealers had assumed that Mr José Mária Aznar's *Partido Popular* would have aggressively cut interest rates had it been elected. The assumption in the markets yesterday was that Mr Gonzalez would be more cautious about rate cutting, and Spanish money market interest rates were unchanged yesterday.

The peseta closed at Pta76.84 from a previous close of Pta78.27. It remained in second place ion the ERM grid with a divergence indicator of plus 49 percentage points. The French franc again performed well against the D-Mark, closing at FFr3.370 from a previous FFr3.372.

Sterling weakened against the D-Mark in Monday's early Asian trading as dealers continued to take the view that there could be a near-term cut in UK base rates.

However, although the pound touched DM2.45 in trading in Australia, rate cutting fears dissipated in Europe. The pound closed at DM2.4650, a ¼ pfennig higher on the day.

Mr Mark Austin, treasury economist at Midland Global Markets, believes that the pound is likely to retain a floor at DM2.45, considering economic difficulties in Germany.

£ IN NEW YORK

Jun 7	Latest	Previous Close
£ Spot	1.5210 - 1.5220	1.5085 1.5095
1 month	0.35 - 0.34pm	0.35 0.34pm
3 months	0.98 - 0.97pm	1.00 0.98pm
12 months	3.00 - 2.90pm	3.15 3.08pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 7	Previous
8.30 am	79.1	79.6
9.00 am	79.2	79.6
10.00 am	79.2	79.5
11.00 am	79.1	79.6
Noon	79.1	79.8
1.00 pm	79.2	79.6
2.00 pm	79.1	79.6
3.00 pm	79.1	79.4
4.00 pm	79.2	79.4

CURRENCY RATES

Jun 7	Bank § rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.444665	0.792322
U.S Dollar	3.00	1.42649	1.20592
Canadian $	5.40	1.82247	1.53316
Austrian Sch	6.75	16.0422	13.7438
Belgian Franc	6.50	46.8135	40.1583
Danish Krone	8.25	8.71865	7.47285
D-Mark	7.25	2.27994	1.95330
Dutch Guilder	6.50	2.56525	2.19144
French Franc	10	7.67803	6.57866
Italian Lira	10.50	2083.80	1778.47
Japanese Yen	2.50	153.067	129.039
Norway Krone	-	9.85941	8.27018
Spanish Peseta	-	178.553	149.696
Swedish Krona	11.50	N/A	8.78434
Swiss Franc	5.00	2.03815	1.75339
Greek Drach	VII	N/A	265.966
Irish Punt	-	N/A	0.792322

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for June 4

CURRENCY MOVEMENTS

Jun 7	Bank of England Index	Morgan ** Guaranty Changes %
Sterling	79.2	-30.41
U.S Dollar	63.9	-13.80
Canadian Dollar	93.6	-6.19
Austrian Schilling	113.8	+15.73
Belgian Franc	115.0	+1.50
Danish Krone	117.4	+11.62
D-Mark	123.4	+30.65
Swiss Franc	111.2	+19.94
Dutch Guilder	118.7	+20.64
French Franc	109.4	-6.77
Lira	82.7	-32.60
Yen	176.6	+137.68
Peseta	90.9	-31.72

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100) **Rates are for June 4

OTHER CURRENCIES

Jun 7	£	$
Argentina	1.5130 - 1.5150	0.9950 - 0.9960
Australia	2.2490 - 2.2510	1.4825 - 1.4835
Brazil	67457.0 - 67458.0	44467.0 - 44468.5
Finland	8.2980 - 8.3490	5.4800 - 5.5000
Greece	332.700 - 338.050	218.550 - 223.700
Hong Kong	11.7220 - 11.7345	7.7265 - 7.7275
Iran	2447.00 - 2449.00	1622.00 - 1624.00
Korea(Sth)	1202.45 - 1221.80	800.60 - 807.00
Kuwait	0.45630 - 0.45720	0.30070 - 0.30120
Luxembourg	50.65 - 50.75	33.25 - 33.35
Malaysia	3.8740 - 3.8846	2.5555 - 2.5565
Mexico	4.7410 - 4.7440	3.1220 - 3.1240
N.Zealand	2.8290 - 2.8330	1.8630 - 1.8655
Saudi Ar	5.6860 - 5.6975	3.7495 - 3.7505
Singapore	2.4410 - 2.4470	1.6095 - 1.6105
S.Af (Cm)	4.8370 - 4.8480	3.1910 - 3.1930
S.Af (Fn)	6.9850 - 7.0005	4.6060 - 4.6100
Taiwan	39.65 - 38.30	26.10 - 28.20
U.A.E.	5.5670 - 5.5800	3.6715 - 3.6725

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 7	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	192.854	185.579	-3.77	4.85	63
Spanish Peseta	154.250	149.696	[illegible]	[illegible]	52
Irish Punt	0.808628	0.801470	-0.89	1.51	43
Dutch Guilder	2.19672	2.19144	-0.24	0.85	16
Belgian Franc	40.2123	40.1583	-0.13	0.74	10
D-Mark	1.94964	1.95330	0.19	0.42	-7
Danish Krone	7.43679	7.47685	0.54	0.07	-21
French Franc	6.53883	6.57866	0.61	0.00	-30

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. (17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

June 7	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.523	2.465	163.5	8.308	2.216	2.766	2250.	1.946	50.70	189.4	1.263
$	0.657	1	1.619	107.4	5.455	1.454	1.817	1481	1.278	33.29	124.4	0.829
DM	0.406	0.618	1	66.33	3.370	0.899	1.123	915.2	0.789	20.57	76.84	0.512
YEN	6.116	9.315	15.08	1000.	50.81	13.55	16.93	13798	11.90	310.1	1158	7.725
F Fr.	1.204	1.833	2.967	196.8	10.	2.666	3.332	2715	2.342	61.03	228.0	1.520
S Fr.	0.451	0.688	1.113	73.81	3.751	1	1.250	1019	0.879	[illegible]	[illegible]	0.570
N Fl.	0.361	0.550	0.891	59.07	3.001	0.800	1	815.0	0.703	18.32	68.42	0.456
Lira	0.443	0.675	1.093	72.47	3.683	0.982	1.227	1000.	[illegible]	22.47	83.95	0.560
C $	0.514	0.783	1.267	84.02	4.269	1.138	1.422	1159	1	26.05	97.33	0.649
B Fr.	1.972	3.004	4.862	322.5	16.39	4.369	5.460	4450	3.839	100.	373.6	2.491
Pta	0.528	0.804	1.301	86.33	4.386	1.169	1.461	1191	1.027	26.77	100.	0.667
Ecu	0.792	1.206	1.952	129.5	6.578	1.754	2.192	1785	1.541	40.14	150.0	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls July	Calls September	Calls December	Puts July	Puts September	Puts December
115	-	2.27	2.23	0.03	0.23	0.74
116	1.14	1.51	1.61	0.08	0.48	1.08
117	0.40	0.90	-	0.31	0.80	-
118	0.10	0.47	0.70	-	-	-
119	-	0.22	0.41	-	-	-
Open Int	11,981	121,216	34,916	24,325	107,842	20,036

Estimated volume 59,953 † Total Open Interest 346,873
† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	Unibank plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk	6	●United Bk of Kuwait	6
Barclays Bank	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Western Trust	6
●Brown Shipley	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
CL Bank Nederland	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
Citibank NA	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

French rates unchanged

DEALERS in French franc interest rate markets were bullish yesterday about the prospect of further policy easing by the Bank of France, even though the authorities left official interest rates unchanged, *writes James Blitz*.

The French franc has performed strongly against the D-Mark on the currency markets in recent days, and there was speculation about another cut in the Bank of France's intervention rate, currently at 7.50 per cent. In the event, this interest rate was left unchanged in the Bank's weekly operation.

UK clearing bank base lending rate 6 per cent from January 26, 1993

However, the currency's strength raised speculation that the French authorities would be able to cut interest rates at a more aggressive pace than has been set by the Germans.

French franc interest rate futures were yesterday discounting lower interest rates in France than in Germany in June and September.

French cash rates have been below their German counterparts for several weeks. But this is only the second day on which the trend has emerged in futures markets.

The June French franc contract closed up 7 basis points at the day at 92.54, while the September contract was up 12 basis points on the day at 93.32.

Euromark futures were only mildly stronger. The June D-Mark interest rate contract closed at 92.45, up 2 basis points on the day. The September contract closed up 2 basis points at 93.23.

The weaker rise in German interest rate contracts was partly due to the perception that the D-Mark was weakening across the board on the currency markets, and that this would make German rate cuts more difficult to implement.

However, D-Mark weakness allowed the Danish authorities to cut rates for the first time since Denmark voted Yes to monetary union on May 18. Denmark's discount rate was cut from 8.25 per cent to 7.75 per cent.

Dealers in sterling markets took a more downbeat view of interest rate cuts, following press reports that the UK government was shying away from the more easing.

The September short sterling contract closed down 7 basis points at 94.19. Three month money closed slightly firmer at 5 15/16 per cent, following difficulties removing a £1bn shortage.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 7)	3 months US dollars	6 months US Dollars
	bid 3¼ offer 3⅜	bid [illegible] offer [illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

هكذا من الأصل

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · ITALY · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE · JAPAN

[illegible]

CANADA

TORONTO

4 pm close June 7

[illegible]

MONTREAL

4 pm close June 7

[illegible]

INDICES

NEW YORK DOW JONES · STANDARD AND POOR'S · NEW YORK ACTIVE STOCKS · TRADING ACTIVITY · CANADA TORONTO

[illegible]

TOKYO - Most Active Stocks

Monday, June 7, 1993

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	9.7m	415	+4
Hitachi Zosen	6.8m	634	+4
Ricoh	6.3m	618	-3
Nikko Kyodo	5.7m	573	-3
Olympus Optical	4.2m	1290	+10
Nippon Zeon	3.8m	698	+11
Mitsubishi Heavy	3.4m	715	-2
NKK	3.3m	340	
Sumitomo Metal	3.3m	398	-1
Fujitsu	3.1m	793	-3

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close June 7

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14 5/8	11 1/2	AAR Corp	0.48	3.5	25	96	13 7/8	13 5/8	13 3/4	-1/8
29 1/2	20	A L Labs A	0.18	0.7	48	517	27 3/4	27 1/4	27 5/8	+1/8
63 1/2	54 5/8	AMP Inc	1.60	2.6	22	1635	62 1/8	61 3/8	61 3/4	+1/2
72 3/4	55 1/2	AMR			10	3775	71 1/2	70 3/4	70 3/4	-1/2
2 1/4	1 3/4	ARX			12	77	2 1/8	2	2	
51 1/2	29 7/8	ASA	2.00	4.1	32	332	48 7/8	48 1/4	48 5/8	-3/8
30 3/4	22 5/8	Abbott Lab	0.68	2.6	17	7370	26 3/4	25 3/4	26 1/8	+1/4
12 5/8	10 1/4	Abitibi Pr	0.50	4.3	4	6	11 5/8	11 1/2	11 1/2	
11 3/4	10 3/4	ACM Gvt In	[illegible]	[illegible]		167	u11 3/4	11 1/2	11 5/8	-1/8
10	9 1/8	ACM GvOpp	0.80	8.3		119	9 3/4	9 5/8	9 5/8	-1/8
9 5/8	8 3/4	ACM Gvt Sp	0.80	8.4		103	u9 5/8	9 1/2	9 1/2	-1/8
11 3/8	10 1/2	ACM Gvt Se	0.96	8.6		300	11 1/8	11	11 1/8	+1/8
11	9 5/8	ACM Man	1.02	10.0		353	10 7/8	10 3/4	10 3/4	-1/8
9 1/2	8 5/8	ACM Mancpd	0.72	8.0		193	9 1/8	9	9	
11	7 3/4	Acme Cleve	0.40	4.0	12	189	10 1/4	10	10	-1/4
9 1/4	6 1/2	Acme Elect			275	36	8 3/8	8	8 1/4	-1/8
16	10 5/8	Acuson			13	2351	12 1/2	12	12 1/2	+1 3/8
22 1/4	19 5/8	Adams Expr	0.48	2.3	1	89	21 3/8	21 1/8	21 1/8	-1/4
66	45 1/2	Ad Micro	3.00	5.7		4633	52 3/4	50 1/2	52 5/8	-5 5/8
32 3/4	17 5/8	Ad Micro P	3.00	12.6	10	32922	23 3/4	22 3/8	23 3/4	-4 1/4
7 3/4	5 1/2	Advest Grp	0.16	2.7	10	14	6	5 7/8	6	
24 3/4	20	Advo Inc	0.06	0.3	23	348	21 1/2	21	21 1/2	+1/4
49 3/8	41 1/2	Aegon ADR	2.95	6.5	9	100	45 7/8	45 5/8	45 5/8	
55 7/8	43 3/8	Aetna Lf	2.76	5.2	125	2371	53 5/8	52 7/8	52 7/8	-1/4
14 1/2	11 1/2	Ahl A	0.26	2.0	29	621	13 1/4	12 7/8	12 7/8	-1/4
40 1/4	33	Aflac	0.50	1.3	17	852	39 1/8	38 5/8	39	+1/8
22 1/8	16 3/4	Ahmanson	0.88	5.0	20	2031	18 3/8	17 1/2	17 1/2	-5/8
[illegible]										
32 3/4	27 1/8	Baxter x	1.00	3.5	15	4882	29 1/8	28 7/8	28 7/8	-1/8
29	24 3/8	Bay St Gas	1.42	5.2	14	42	27 1/4	27	27 1/8	
25	22	Bd Tr 1838	1.82	7.8		31	23 3/8	23 1/8	23 3/8	+1/8
23	15 3/4	Bear Strns	0.60	2.8	7	3544	22	21 1/2	21 1/2	-1/2
49	45 1/2	BearStPIA	2.77	5.7		6	u49	49	49	
24 3/4	20 1/2	Bearings	0.64	2.8	77	13	22 5/8	22 1/2	22 1/2	-1/8
25 1/2	20 3/4	Beckman In	0.36	1.6	14	425	22	21 7/8	22	+1/8
40 3/4	32 5/8	Becton Dks	0.66	1.8	13	682	37	36 1/2	36 3/4	-1/4

[illegible]

Continued on next page

4 pm close June 7

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22	15½	S Anita Rt	1.36	7.8	19	92	17⅞	17⅝	17⅞	
20¾	17	SCOR US Cp	0.32	1.9	212	65	17	d17	17	-⅛
28	20	SPS Techno	1.28	4.6	20	11	u28	27⅞	28	
14½	12⅞	Sabine Rlt	1.33	9.6	10	49	13⅞	13¾	13⅞	+⅛
13⅛	8⅞	Safecard	0.20	1.5	12	719	13	12⅝	13	+¼
23½	16⅞	Safeg'd Sc			8	24	18	18	18	+⅛
24¾	16¼	SafetyKln	0.36	2.0	24	703	17¾	17⅝	17⅝	-⅛
16½	10⅞	Safeway			25	556	15⅞	15¾	15⅞	+¼
3⅝	2	SafewayWDG				51	3½	3¼	3½	+¼
44½	37½	StJoePaper	0.20	0.5	92	23	39	38¾	39	
37¾	31	StJosL&P	1.76	4.8	14	9	36⅞	36⅝	36⅝	-¼
83¼	75	St Paul's	2.80	3.5	12	377	80⅞	80¼	80¼	-⅝
9⅝	7⅞	Salant Crp			5	8	8¼	8¼	8¼	
75¼	42½	Sallie Mae	1.20	2.8	10	3655	46⅞	45⅝	46	+½
13⅞	13	Salomon Br	0.36	2.7		376	13⅜	13¼	13¼	
41⅞	34	SalomonInc	0.64	1.8	18	594	36½	36¼	36¼	-¼
26⅞	23¼	SanDgo G&E	1.48	5.8	14	258	25⅝	25½	25⅝	+⅛
4⅞	3½	SantaFeEDu	0.40	10.3	193	119	3⅞	3¾	3⅞	+⅛
11⅞	8⅛	SantaFeERs	0.16	1.5	1100	461	11⅛	10⅞	11	+⅛
40¾	35¾	SantaFePac	2.80	7.4	13	106	38	37¾	38	-⅝
18	12¾	SantaFeSth	0.10	0.6	19	2325	16¾	16½	16¾	+⅛
31⅛	23⅞	Sara Lee x	0.58	2.3	18	4413	25	24¾	25	+¼
47	40⅛	Scana Corp x	2.74	5.9	15	95	46⅞	46¼	46⅞	+¼
49⅝	43	Scecorp	2.80	5.8	14	1647	48½	48½	48⅞	+⅛

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Prices data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close June 7

[illegible]

NASDAQ NATIONAL MARKET

4 pm close June 7

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

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AMERICA

Dow eases as confusion on data persists

Wall Street

US share prices edged lower in subdued trading as investors struggled to find their economic bearings in the wake of last Friday's surprisingly strong May employment report, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was down 4.15 at 3,540.99. The more broadly based Standard & Poor's 500 was down 1.02 at 449.04, while the Amex composite was 0.22 lower at 440.73, and the Nasdaq composite down 4.95 at 697.06. Trading volume on the NYSE was 139m shares by 1 pm.

The week opened with investors still confused about the state of the economy. Last Friday's unexpectedly strong showing from the labour markets – the 209,000 gain in non-farm payrolls during May was well above forecasts – failed to lift share prices, primarily because the news forced bond yields higher, and only added to the uncertainty surrounding the progress of the apparently faltering economic recovery.

Thus, with doubts still surrounding the outlook for the economy, and with bond prices little changed at midday, the equity markets drifted yesterday for lack of a firm direction from external forces. Traders said that activity was unusually light, and some warned that the markets were settling in for a long summer of listless trading, with prices probably moving within a relatively narrow range.

Advanced Micro Devices, after a delayed opening due to an order imbalance, plunged $4⅝ to $23⅞ in volume of 3m shares on news that the company's main rival, Intel, had won a legal ruling on Friday that will help it in its battle to restrict AMD from selling clones of Intel's best-selling microchip. Intel, which is traded on the Nasdaq market, was up $2¼ at $55⅞ in volume of 8m shares by early afternoon yesterday.

Parker & Parsley climbed $2⅝ to $29⅞ after the company announced plans to sell some oil and gas rights to Louis Dreyfus for $157m, and to raise its offer for the energy partnerships owned by Prudential Securities from $466m to $508m.

BankAmerica fell $⅝ to $42⅝ in volume of 1.5m shares after Prudential Securities lowered its rating on the bank's stock from a "hold" to a "sell". Other bank stocks were also lower as investors worried that interest rates might soon be raised by the Federal Reserve: Citicorp fell $1¼ to $36⅝, Chase Manhattan $⅞ to $29 and Chemical $1⅞ to $35¼.

Aurora Electronics fell $⅞ to $6⅛ in busy trading after warning that third quarter revenues will not meet market estimates.

On the Nasdaq market, Repligen rose $⅞ to $9⅞ as the company began trials of its therapeutic vaccine for carriers of the HIV-Aids virus.

Canada

TORONTO softened at midday as falling financial services shares offset solid early gains by real estate and construction issues. The TSE-300 composite index fell 11.55 to 3,883.08 in turnover of 31.43m shares valued at C$275.55m.

The gold and silver index bounced back from early weakness to trade 7.86 lower at 8,456.21, as New York Comex gold futures pared earlier losses at midday.

SOUTH AFRICA

Gold shares extended early afternoon losses as the bullion price fell back, the index closing 63 off at 1,893. Industrials added 11 at 4,548, while the overall index declined 25 to 3,933. De Beers retreated 50 cents to R78.50.

EUROPE

Madrid falls 1.7 per cent after Socialist victory

BOURSES demonstrated more volatility than of late yesterday, on political swings, on profit-taking and on technical grounds, *writes Our Markets Staff.*

MADRID took its losses mostly in the banking sector as the general index dropped 4.42, or 1.7 per cent to 256.83.

The Socialist election victory reduced the prospect of interest rate cuts. Among banks, BBV fell Pta75 to Pta3,090 and Central Hispano by Pta100 to Pta3,400.

Turnover eased by Pta3bn to Pta20.1bn. Rationalisation measures in the energy market left most utilities flat, and relatively strong but Endesa, perceived as the loser in this situation, fell Pta110 to Pta4,365.

FRANKFURT accelerated its rate of advance, the DAX index closing 17.76, or 1.1 per cent higher at 1,655.61 as turnover rose from DM5.1bn to DM5.2bn.

Dealers said that trade was mainly chart driven. In the automotive sector, BMW rose by DM8.80 to DM464.50, Daimler by DM11.80 to DM573.80 and Volkswagen by DM6.50 to DM331.50. There were reports of a number of "buy" recommendations for carmakers from major German banks.

The "big three" banks, however, did not speak in unison. DB Research was optimistic for Daimler, but it saw sales volume problems at Volkswagen.

At Dresdner, Mr Lothar Wenger said that the bank had reduced the underweighting level of Daimler in mid-May, and that it was about to go up to market weight.

Commerzbank said that it was recommending banks, insurance companies and the major chemicals as equity investments, and carmakers – particularly VW and Daimler – for trading purposes.

PARIS was lifted mainly by futures driven trading in the absence of major corporate news. However, overall sentiment was helped as a number of international fund managers lifted their market weighting on France.

Nomura, for instance, has recently issued an upbeat comment on French equities, noting in particular that domestic interest rates are likely to continue falling, while weakness of the DM is expected to slow down, "if not entirely halt", the pace of German monetary easing.

The CAC-40 index rose 28.17 to 1,887.86, but off the day's best level of 1,894. Turnover was FFr3bn.

The oil sector featured ahead of today's Opec meeting in Geneva: Total gained FFr4 to FFr272 and Elf Aquitaine FFr5.70 to FFr380.30.

MILAN suffered as investors gave a broadly negative reaction to the news, announced after Friday's close, that Ferruzzi had appointed five banks, including Mediobanca and BCI, to draw up a restructuring plan for the group. The banks are the group's major creditors and some analysts have suggested that a debt-for-equity swap may be arranged.

Ferruzzi finished down L47.90 or 4.5 per cent at L963.10, but off a year's low of L956, while Montedison slipped L52 or 4.6 per cent to L1,080.

The Comit index closed down 10.74 at 530.68 in low turnover estimated to be around L200bn. Mr John Stewart of Milan brokers Pastorino commented that a number of factors had been exercising a brake on the market recently: the euphoria following the change of government had now died down; the privatisation programme remained confused; and corporate results over the last couple of weeks had underlined the debt burden of many major groups.

Another strong influence on the market yesterday was Sunday's first round voting in municipal elections which showed waning support for the main parties.

ZURICH celebrated a second consecutive record high with the SMI index closing 24.6 higher at 2,309.9. Banks led the market, SBC rising by SFr6 to SFr381 and CS Holding, ex a SFr75 dividend and ex rights worth SFr67 a share, ending a net SFr42 higher at SFr2,580.

AMSTERDAM showed a strong finish helped by a strong dollar and German market. The CBS Tendency index advanced 1.0 to 105.7.

Among the day's best performers, Royal Dutch, up Fl 1.70 to Fl 167.60 and Unilever, up Fl 1.20 to Fl 194.30, advanced on the currency theme.

HELSINKI fell 1.8 per cent in thin trading, the Hex index off 21.7 at 1,143.3, as investors awaited the publication of interim results.

ISTANBUL, closed last week for a religious holiday, put on 2.5 per cent on expectations of good half year results, and ignoring a rise in monthly inflation data. The 75-share index improved 208.19 to 8,583.94 in turnover of some TL800bn.

TEL AVIV climbed in active trading on optimism over Middle East peace prospects, the Mishtanim index rising 4.59, or 2.3 per cent to 205.05 in turnover of Shk226m.

WARSAW dropped 9.5 per cent, 15 of its 17 stocks hitting their limit down of 10 per cent as the WIG index dropped another 319.7 to 3,034.2. Turnover was only 83bn zloty, after 371.9bn last Thursday.

● The following notice was issued last Friday by the FT-SE Eurotrack indices committee:

The FT-SE Eurotrack indices committee has today approved, following the announcement that the Bearer and Part Certificated lines of Nestlé will be converted into the Registered Stocks, that both Nokia (Finland) and CRH (Ireland) will become constituents of the FT-SE Eurotrack 100 and 200 indices.

FT-SE Actuaries Share Indices

June 7 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1161.47	1162.17	1163.03	1163.81	1164.46	1165.84	1167.41	1167.78
FT-SE Eurotrack 200	1213.65	1214.39	1215.16	1216.70	1216.04	1217.01	1218.96	1219.66

	June 4	June 3	June 2	June 1	May 28
FT-SE Eurotrack 100	1159.95	1160.81	1155.78	1153.22	1161.58
FT-SE Eurotrack 200	1214.21	1217.23	1215.58	1215.43	1224.85

Base value 1000 (26/10/90) High/day: 100 - 1168.30; 200 - 1220.45 Low/day: 100 - 1161.41 200 - 1213.51.

ASIA PACIFIC

Hong Kong under pressure as Seoul hits a new high

Tokyo

LATE afternoon arbitrage selling eroded earlier gains, and the Nikkei average ended easier in low volume. Many investors remained inactive ahead of Wednesday's public holiday for the royal wedding, *writes Emiko Terazono in Tokyo.*

The Nikkei relinquished 38.05 to 20,844.19 after a day's high of 21,101.80 registered in the morning and a low of 20,829.54 minutes before the close.

Volume fell to 351.4m shares from Friday's 563m. Investors have been reluctant to take positions ahead of Wednesday, and the futures and options settlements on Friday, while some have also been deterred by a number of economic indicators to be revealed this week.

The government will release its monthly economic report on Thursday, followed by the Bank of Japan's tankan, or quarterly survey of business sentiment, on Friday.

In spite of the Nikkei's loss, rises led falls by 523 to 504, with 165 issues unchanged. The Topix index of all first section stocks gained a marginal 0.15 at 1,671.85 and, in London, the ISE/Nikkei 50 index firmed 3.30 to 1,269.21.

THK, a bearings company on the over-the-counter market, suffered from rumours, which it later denied, that it was facing financial difficulties. Nevertheless, the rumours prompted a fall in the OTC average of 17.80 to 1,645.51.

On the main market, prices fluctuated on technical trading. Some property companies were higher on rumours that Mr George Soros, the international fund manager, was targeting the property markets. Mitsubishi Estate moved forward Y20 to Y1,150.

Banks were bought by foreign investors, many of whom have relatively low weightings in this sector. Dai-Ichi Kangyo Bank rose Y30 to Y2,080 and Fuji Bank put on Y10 at Y2,330. Regional banks were also higher, with Kanto Bank up Y340 to Y5,150.

Aids-related stocks continued to be sought, with Olympus Optical, reported to be developing Aids diagnostic equipment, appreciating Y10 to Y1,290 in active trading.

In Osaka, the OSE average lost 10.63 to 23,361.80 in volume of 24.9m shares.

Roundup

THE WEEK opened with many markets seeking fresh directions.

HONG KONG lost ground under pressure from a late round of profit-taking. The Hang Seng index fell 32.76 to 7,124.73 in turnover sharply down to HK$3.1bn from Friday's HK$4.9bn.

Cheung Kong was a focus of trade, off 10 cents at HK$27.40, having hit a low of HK$27.20, while HSBC Holdings fell victim to a late wave of selling, retreating 50 cents to HK$71.50. Wharf Holdings shed 10 cents to HK$30.20.

There was also selected bargain hunting, China Light gaining 25 cents at HK$39.50 and Hongkong Land up 40 cents to HK$16.10.

SEOUL rose to a 31-month high, with investors encouraged by hopes that a breakthrough in talks between North and South Korea might soon be reached. The composite index added 11.69 at 766.28 in turnover of Won977.5bn.

Forecasts of good first-half results from pharmaceutical and chemical groups left most stocks in this sector at their daily highs. Hanyang Chemical and Isu Chemical each rose Won600 to Won12,600 and Won13,800 respectively.

SINGAPORE weakened further as investors continued to take profits after recent strength. The Straits Times Industrial index closed 14.76 lower at 1,856.12 in volume of 136.75m shares against 186.11m.

TAIWAN was easier, with economic data released on Saturday showing a rise in inflation last month unable to lift sentiment.

The weighted index, which had opened slightly lower, extended its loss in late trading to end 51.23, or 1.2 per cent, off at 4,317.00. Turnover fell to T$19.6bn from the T$26bn seen in Saturday's half-day session.

Financials remained weak, with the major banks losing between T$1.50 and T$3.

MANILA was encouraged by Friday's news of lower inflation and Philippine Long Distance Telephone's recovery in New York.

Inflation fell to 6.7 per cent in May from 7.9 per cent a month before. The composite index rose 16.86 to 1,604.17 in turnover of 301.7m pesos, against 291.8m pesos. PLDT put on 10 pesos at 965 pesos.

AUSTRALIA drifted lower in a featureless market. The All Ordinaries index shed 2.6 to 1,738.5 in A$186.43m turnover. CRA lost 6 cents to A$13.12.

BOMBAY rose on better than expected results from Tata Iron and Steel. The BSE index finished 56 ahead at 2,392.

BANGKOK weakened as investors took profits on a number of new issues which had made their market debuts last week. The SET index slipped 4.94 to 827.14 in turnover of Bt4.32bn.

Finland waits for interim reports season

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1993	Start of 1993	Start of 1993
Austria	+1.51	+3.94	-15.29	+4.06	+4.71	+4.99
Belgium	-1.59	-1.24	+0.51	+6.85	+6.25	+6.52
Denmark	-0.92	-3.68	-10.27	+13.15	+13.89	+14.19
Finland	-3.95	-4.39	+52.77	+42.09	+34.99	+35.34
France	-1.51	-1.05	-5.59	+2.68	+3.44	+3.71
Germany	+0.26	+1.10	-8.97	+6.69	+6.43	+6.71
Ireland	+0.97	+4.66	+14.39	+29.50	+19.42	+19.73
Italy	-1.75	-1.95	+15.75	+24.59	+23.93	+24.26
Netherlands	-0.60	+0.12	+3.03	+9.56	+9.09	+9.37
Norway	-0.28	-0.06	-7.96	+12.79	+13.27	+13.57
Spain	+0.80	+8.70	+2.89	+22.47	+10.68	+10.95
Sweden	-0.92	+0.71	+14.57	+11.68	+7.91	+8.20
Switzerland	+0.75	+5.77	+17.68	+11.59	+11.76	+12.04
UK	-0.20	+1.45	+6.71	+1.07	+1.07	+1.34
EUROPE	-0.36	+1.24	+3.12	+6.16	+6.59	+6.87
Australia	-1.23	+2.42	-0.62	+9.53	+7.32	+7.61
Hong Kong	-2.79	+5.62	+14.43	+31.06	+31.00	+31.34
Japan	+0.05	+2.34	+24.24	+25.91	+45.51	+45.90
Malaysia	-1.02	+5.29	+46.49	+27.32	+30.07	+30.41
New Zealand	+0.09	+6.54	+4.19	+10.04	+15.10	+15.39
Singapore	+0.94	+6.36	+14.26	+19.78	+22.03	+22.35
Canada	-0.07	+1.34	+6.58	+11.19	+10.29	+10.58
USA	-0.06	+1.84	+9.19	+3.30	+3.03	+3.30
Mexico	-1.96	-4.21	-12.66	-11.61	-11.88	-11.65
South Africa	-1.46	+5.51	+4.94	+26.06	+32.88	+33.21
WORLD INDEX	+0.09	+1.99	+11.36	+11.07	+15.38	+15.69

† Based on June 4th 1993. Copyright, The Financial Times Limited, Goldman Sachs & Co, and NatWest Securities Limited.

By William Cochrane

Global equities moved quietly into June with last week foreshortened by the Whitsun holiday. Gains in Japan outweighed miniscule declines in Europe and the US to leave the FT-Actuaries World Index up 0.1 per cent in local currency terms.

The biggest falls came in markets which, to date, had produced the largest gains. In Europe, Finland dropped on profit-taking after a rise of 47.9 per cent in the five months to May 28; in the Pacific, Hong Kong fell on news that China had decided not to support its currency on some of its semi-official swap markets.

Goldman Sachs noted last week that news from Finland recently has been almost exclusively about rights issues: "The fact that several of these proposed cash calls (Nokia, Metsa-Serla) have been directed to foreign investors and that they will improve liquidity further has made the market reaction mild."

Goldman is still positive on the Helsinki market but says that near-term performance will depend on the tone of the interim reports due this month. "Most of the companies should show strong improvements on last year's levels," it adds, "thanks to the devaluation effect on their large net exports (on average around 35 per cent), even if the high debt in foreign currency will reduce the benefits somewhat."

Hong Kong, the second-best World Index performer this year, showed its weakness mostly in companies with significant exposure to China. On the mainland, Shanghai and Shenzhen B share indices fell in sympathy, and a broker said foreign investors had lost their confidence in China's economy, and currency.

Mexico's 2 per cent decline was the more worrying because it was already the only constituent market showing a loss this year. However, Latin American Securities in London says that what happened amounted to "a siesta in a quiet week".

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 4 1993								THURSDAY JUNE 3 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (68)	134.64	-0.8	131.49	91.70	113.57	132.53	-0.1	3.70	135.76	130.74	92.21	112.97	132.65	144.19	117.39	152.88
Austria (18)	147.15	+1.3	143.71	100.22	124.12	122.16	+1.0	1.62	145.32	139.96	98.70	120.92	120.99	150.86	131.16	173.96
Belgium (42)	141.92	-1.7	138.61	96.65	119.71	116.72	-0.4	4.86	144.43	139.09	98.09	120.16	117.19	156.76	131.19	143.69
Canada (108)	127.87	+0.1	124.89	87.09	107.86	118.38	+0.5	2.79	127.69	122.97	86.72	106.24	117.64	129.97	111.41	127.94
Denmark (33)	212.53	-0.8	207.58	144.76	179.28	179.72	+0.6	1.26	214.35	206.43	145.59	178.36	178.64	225.64	185.11	239.92
Finland (23)	94.21	-1.0	92.02	64.17	79.47	108.56	+0.2	1.13	95.21	91.69	64.67	79.22	108.30	100.92	65.50	78.16
France (98)	152.64	-1.8	149.08	103.95	128.74	130.97	-0.4	3.43	155.44	149.69	105.57	129.33	131.55	167.36	142.72	164.31
Germany (62)	111.02	-0.9	108.43	75.62	93.64	93.64	+0.5	2.27	111.90	107.64	76.06	93.17	93.17	117.10	101.59	124.64
Hong Kong (55)	291.00	+0.3	284.21	198.20	245.48	288.61	+0.3	3.24	290.03	279.31	196.99	241.35	287.63	301.61	218.82	253.99
Ireland (15)	162.57	-0.6	158.78	110.73	137.13	152.66	+0.9	3.47	163.53	157.49	111.07	136.08	151.30	170.40	129.28	158.97
Italy (73)	68.18	-3.1	66.59	46.43	57.51	75.41	-1.7	2.32	70.38	67.78	47.80	58.56	76.74	72.82	53.78	71.80
Japan (470)	153.24	-0.6	149.66	104.37	129.28	104.37	-0.3	0.80	154.20	148.50	104.73	128.33	104.73	154.20	100.75	104.23
Malaysia (69)	340.98	-0.4	333.03	232.24	287.62	335.34	-0.4	2.02	342.19	329.54	232.41	284.73	336.65	346.83	251.66	238.40
Mexico (18)	1455.89	-1.7	1421.93	991.62	1228.10	4963.79	-1.5	1.36	1480.48	1425.73	1005.54	1231.80	5046.98	1725.81	1410.30	1673.19
Netherland (24)	165.59	-1.5	161.73	112.78	139.68	137.70	+0.0	3.99	168.05	161.83	114.14	139.83	137.75	172.75	150.39	163.77
New Zealand (13)	49.49	+0.2	48.34	33.71	41.75	48.76	+0.8	4.55	49.38	47.56	33.54	41.09	48.35	49.82	40.56	47.30
Norway (22)	156.40	-1.6	152.75	106.52	131.93	145.84	-0.4	1.81	158.95	153.08	107.96	132.27	146.39	168.21	137.71	187.36
Singapore (38)	261.05	+0.4	254.96	177.80	220.20	193.20	+0.4	1.78	260.14	250.52	176.69	216.45	192.34	262.72	207.04	225.16
South Africa (60)	197.28	+0.4	192.68	134.36	166.41	198.13	+0.3	2.53	196.42	189.16	133.41	163.44	197.59	201.01	144.72	246.11
Spain (46)	129.38	-0.8	126.36	88.12	109.13	123.94	+0.5	4.80	130.44	125.62	88.60	108.54	123.32	132.62	115.23	156.82
Sweden (36)	179.13	-2.0	174.95	122.01	151.10	193.58	-0.6	1.75	182.75	175.99	124.13	152.07	194.72	184.06	140.70	197.54
Switzerland (55)	126.62	-1.3	123.67	86.25	106.82	114.57	+0.8	1.90	128.34	123.60	87.16	106.81	113.66	129.36	108.91	106.17
United Kingdom (219)	174.67	-2.1	170.59	118.95	147.32	170.59	-0.7	4.07	178.44	171.84	121.18	148.46	171.84	181.99	162.00	196.89
USA (519)	183.97	-0.6	179.68	125.31	155.19	183.97	-0.6	2.78	185.04	178.20	125.69	153.98	185.04	186.27	175.38	168.53
Europe (766)	144.00	-1.7	140.64	98.08	121.47	132.54	-0.3	3.36	146.54	141.12	99.53	121.94	132.94	149.02	133.82	155.66
Nordic (114)	166.43	-1.6	162.55	113.36	140.39	158.94	-0.2	1.57	169.13	162.87	114.87	140.73	159.27	171.77	142.13	182.20
Pacific Basin (713)	156.52	-0.6	152.87	106.61	132.03	110.81	-0.3	1.06	157.42	151.60	106.92	130.99	111.14	157.42	105.89	110.78
Euro-Pacific (1479)	151.27	-1.0	147.74	103.02	127.59	120.49	-0.3	1.96	152.84	147.19	103.80	127.17	120.85	152.84	117.28	128.95
North America (627)	180.47	-0.6	176.26	122.94	152.26	179.50	-0.5	2.78	181.47	174.76	123.27	151.03	180.47	182.38	171.51	165.98
Europe Ex. UK (547)	124.89	-1.5	121.97	85.06	105.37	111.07	+0.0	2.87	126.76	122.06	86.12	105.50	111.08	129.65	112.51	131.07
Pacific Ex. Japan (243)	189.32	-0.1	184.90	128.97	159.71	174.78	+0.1	3.13	189.58	182.57	128.78	157.76	174.57	194.08	152.70	175.25
World Ex. US (1665)	151.72	-1.0	148.18	103.34	127.98	122.50	-0.3	1.98	153.22	147.55	104.07	127.50	122.84	153.23	118.51	131.22
World Ex. UK (1965)	160.22	-0.7	156.48	109.13	135.16	138.52	-0.4	2.10	161.34	155.38	109.59	134.26	139.01	161.34	134.22	137.71
World Ex. So. Af. (2124)	161.38	-0.8	157.61	109.92	136.14	141.03	-0.4	2.28	162.74	156.73	110.55	135.43	141.60	162.74	137.29	142.13
World Ex. Japan (1714)	167.89	-0.9	163.97	114.36	141.64	161.76	-0.4	2.98	169.45	163.19	115.10	141.02	162.43	170.05	157.47	164.47
The World Index (2184)	161.51	-0.8	157.74	110.01	136.25	141.52	-0.4	2.29	162.86	156.84	110.62	135.53	142.08	162.86	137.32	142.81

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Latest prices were unavailable for this edition.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	20.60	22.16	23.33
0100	17.99	18.46	18.45
0130	33.00	19.00	19.00
0200	33.00	32.70	36.59
0230	17.95	32.70	36.48
0300	33.00	32.70	36.37
0330	33.00	22.15	25.27
0400	33.00	18.48	18.45
0430	33.00	18.45	18.46
0500	33.00	18.46	18.46
0530	33.00	20.48	23.50
0600	33.00	20.46	23.55
0630	33.00	20.46	23.57
0700	33.00	20.46	23.53
0730	33.00	20.46	23.51
0800	[illegible]	23.01	26.17
0830	19.16	23.65	26.32
0900	21.42	23.70	26.65
0930	22.06	24.72	27.92
1000	24.11	26.94	30.20
1030	24.11	26.60	29.92
1100	27.06	26.94	30.02
1130	28.06	26.94	30.01
1200	30.41	29.32	32.46
1230	33.00	30.50	33.64
1300	33.00	30.50	33.55
1330	29.05	29.32	32.48
1400	27.06	28.59	29.82
1430	22.06	26.69	30.04
1500	18.04	26.59	29.97
1530	33.00	[illegible]	26.88
1600	[illegible]	18.65	18.65
1630	33.00	18.65	18.65
1700	39.00	24.21	27.38
1730	16.04	24.36	27.55
1800	21.76	24.36	27.56
1830	21.76	24.36	27.56
1900	21.76	26.69	29.83
1930	21.76	26.69	29.73
2000	21.76	26.69	29.73
2030	22.06	26.69	29.76
2100	22.16	30.07	33.19
2130	27.06	30.50	33.52
2200	46.76	30.50	33.61
2230	46.76	30.01	33.16
2300	46.76	30.01	33.21
2330	22.06	26.94	29.79
2400	21.76	26.64	29.96

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.09	23.88	27.61
0100	18.08	23.88	27.68
0130	18.07	23.89	27.70
0200	18.07	29.07	33.73
0230	18.07	29.87	33.72
0300	18.07	20.60	20.60
0330	18.07	19.50	19.50
0400	18.07	19.00	19.00
0430	18.07	18.60	18.60
0500	18.07	18.60	18.60
0530	20.43	18.60	18.60
0600	20.43	18.56	18.56
0630	20.43	18.72	18.72
0700	22.10	19.00	19.00
0730	24.61	26.69	30.35
0800	24.28	26.19	29.77
0830	24.90	26.71	30.32
0900	26.35	27.41	31.04
0930	26.24	28.62	32.21
1000	26.33	29.41	33.14
1030	26.38	29.43	33.15
1100	29.40	29.43	33.14
1130	33.59	27.62	31.14
1200	33.69	28.47	32.16
1230	33.62	29.43	33.14
1300	33.48	29.37	33.03
1330	26.79	26.88	30.43
1400	26.04	26.86	30.41
1430	26.01	25.70	29.21
1500	26.01	25.70	29.21
1530	25.25	25.70	29.20
1600	50.05	25.70	29.21
1630	26.21	30.57	34.34
1700	33.36	36.04	39.88
1730	33.29	35.04	39.57
1800	31.27	36.02	39.88
1830	24.84	25.68	29.22
1900	24.75	25.68	29.23
1930	24.75	25.18	28.71
2000	24.75	24.82	28.35
2030	24.01	24.61	28.12
2100	24.01	25.18	28.70
2130	24.75	35.00	38.83
2200	27.92	35.00	38.83
2230	33.50	25.18	28.70
2300	33.50	24.50	28.03
2330	23.56	24.22	27.80
2400	22.10	24.22	27.65

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UK fears threat to London auctioneers

VAT deal on works of art eludes EC

By Lionel Barber in Luxembourg

EFFORTS to reach agreement on a new EC-wide tax on imports of works of art collapsed last night after Britain argued that the tax posed a threat to the main London auction houses led by Sotheby's and Christie's.

British opposition cut hopes of ending the long-running dispute over harmonising VAT rates on second-hand goods in the EC, though ministers vowed to continue negotiating.

The European Commission's seventh VAT directive covers all second-hand goods, but Britain has a special interest because of the London art market which faces stiff competition from New York and is not matched by any European operation.

After several hours of tense negotiation at yesterday's meeting of EC finance ministers in Luxembourg, the Danes presented a compromise which briefly raised hopes of a deal.

Sir John Cope, UK paymaster general, said Britain intended to back the Danish plan which proposed allowing it to maintain a reduced VAT rate of 2.5 per cent on imported works of art until the end of 1996.

This would be lower than for the rest of the Community where member states would have paid an average 5 per cent, under the proposal.

UK officials hoped they could extend the lower rate indefinitely beyond 1996, the year when the present transitional regime for VAT rates in the EC is due to end and new negotiations are due to begin. Sir John noted that Britain was determined to protect its market beyond two or three years.

But several EC partners objected on the grounds that it was necessary to fix a date for harmonised rates across the EC sometime before the end of the century.

Disagreements also arose about the treatment of works of art dating after 1973. Some member states felt that these "modern" works should receive more favourable treatment.

Another unresolved issue concerned German desire for more flexibility in the VAT treatment of used cars.

In other respects, the Danish plan appeared to go a long way to meet UK objections.

- The tax would cover the dealer's profit margin rather than the full price of the work of art as sold.
- Works of art imported from outside the EC would not be taxed for two years, rather than the earlier Commission proposal of six months.
- Works of art imported into the EC and then leaving the Community market would not be taxed.

Lack of harmonisation in tax and business law is the chief obstacle to the working of the single market, according to a poll of senior EC company executives, writes Tony Jackson, Industry Editor. The next biggest obstacle is the lack of a single currency.

In a survey of European chairmen and managing directors by Coopers & Lybrand, 87 per cent thought it important the Maastricht Treaty should be ratified. The treaty's most beneficial aspect was seen as the move to economic and monetary union. The biggest drawback was seen as the risk of extended EC powers.

Kohl defends absence from funeral of Turks

By Quentin Peel in Bonn

MR Helmut Kohl, the German chancellor, yesterday defended his decision not to attend the funeral last week of five Turkish victims of an arson attack, saying his presence would simply have provoked the crowd.

In the face of widespread criticism for his decision to stay away – when federal President Richard von Weizsäcker and Mr Klaus Kinkel, foreign minister, both attended – the chancellor insisted: "I know how to behave."

He told a television interviewer that his presence would have attracted boos and whistles from the crowds attending the funeral in Cologne of the two Turkish women and three girls who died. "That would have been taken as proof that I was provoking a Turkish or a German reaction," he said. "I know what [television] pictures get sent round the world. So that is why I know how to behave."

He blamed the latest upsurge in racist attacks not on the existence of a large Turkish migrant worker population, but on the failure to tackle the problem of "economic asylum seekers" flooding into the country. Turks and Germans had lived together for years with scarcely any racial problems.

His interview was broadcast after the federal prosecutor's office had confirmed that one of the four men charged with the latest murders was the member of an extreme right-wing political party.

The man, named only as 23-year-old Markus G., had a membership card for the nationalist German People's Union (DVU), a legal political group which has won seats in local elections in north Germany. In spite of the discovery, the prosecutor still believes there was no formal right-wing conspiracy behind the arson attack in the town of Solingen, north-east of Cologne.

The deaths have sparked a new wave of national protests at the failure of the authorities to curb extreme right-wing groups, and demands for the introduction of more liberal nationality laws for Turkish and other long-term residents. The liberal Free Democrats, junior partners in Mr Kohl's ruling coalition, yesterday called for dual nationality to be granted to such applicants.

Chancellor vows to push through aged care plan

By Quentin Peel in Bonn

CHANCELLOR Helmut Kohl yesterday threw his political weight behind a plan to create a new arm of the German social welfare system, just as negotiations to cut back on the rest of social spending get under way.

He declared his determination to see a scheme for residential nursing care for the old and handicapped made law by the autumn, in spite of fierce opposition from business and trade unions.

A campaign to sell the scheme, financed by increased insurance contributions from workers and employers, was launched yesterday by the federal Labour Ministry, with full-page advertisements in the popular press.

The main business lobbies, including the German industry federation (BDI) and the employers (BDA), say it makes no sense to introduce a new pillar of the social welfare system just as the economy is in the depths of a recession.

The campaign is part of an effort by Mr Kohl and his Christian Democratic Union to preserve its caring image for next year's election campaign, in spite of the overwhelming need to cut back on social welfare spending in other fields.

It also fits with Mr Kohl's determination not to reduce spending affecting the elderly, when unemployment benefits and child allowances are likely to be reduced under a DM20bn ($12.5bn) package of cuts proposed by Mr Theo Waigel to control the deficit.

But in order to gain the support of the Free Democratic party, the junior partner in the ruling coalition, Mr Kohl has agreed that the financial burden on industry should be offset by making the first two days of sick leave unpaid.

That has infuriated the unions and the opposition SPD, whose social affairs spokesman, Mr Rudolf Dressler, says any care scheme financed by cancelled sick pay will be rejected by his party outright.

The trade union federation yesterday described the plan as "politically and legally crazy," and warned of a "long, hot summer" of protests against it.

The initial extra charge on social insurance would account for 1.7 per cent of gross wages by 1996, but industrialists fear the amount will increase rapidly because of an ageing population and shrinking workforce.

IG Metall selects Steinkühler successor

By Christopher Parkes in Frankfurt

MR KLAUS ZWICKEL was yesterday nominated to succeed Mr Franz Steinkühler as president of IG Metall, the German engineering union.

His selection, made by the union's directorate, was widely expected and followed Mr Steinkühler's resignation two weeks ago after allegations of insider share trading.

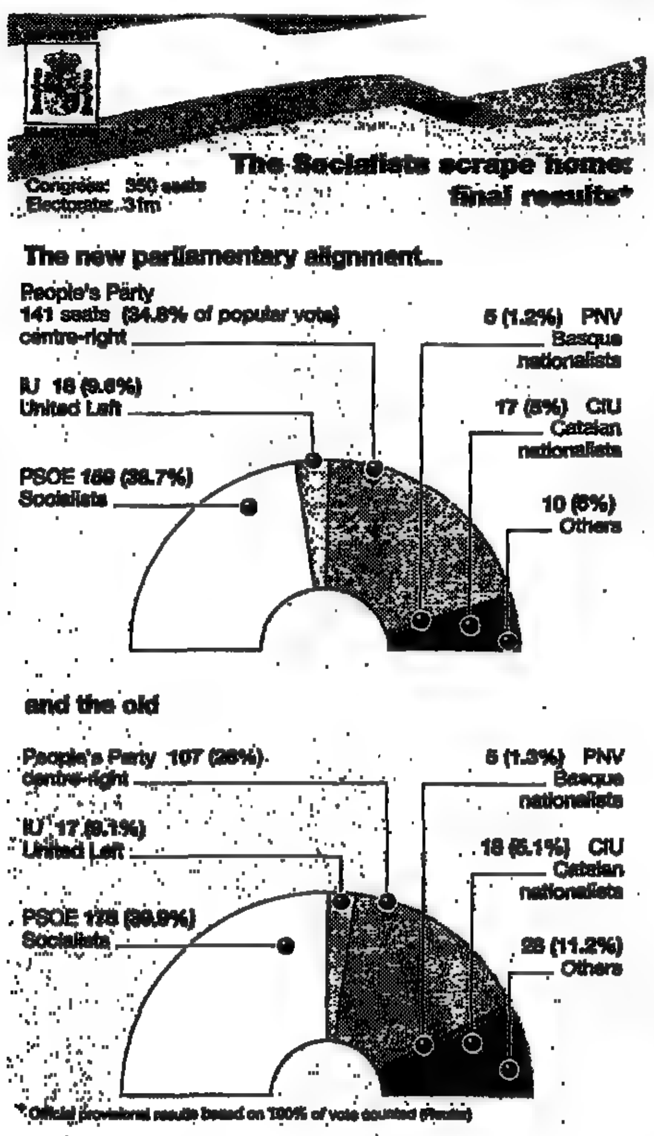
Mr Zwickel, formerly deputy president, is acknowledged as a tough negotiator but said to lack the political skills of his predecessor.

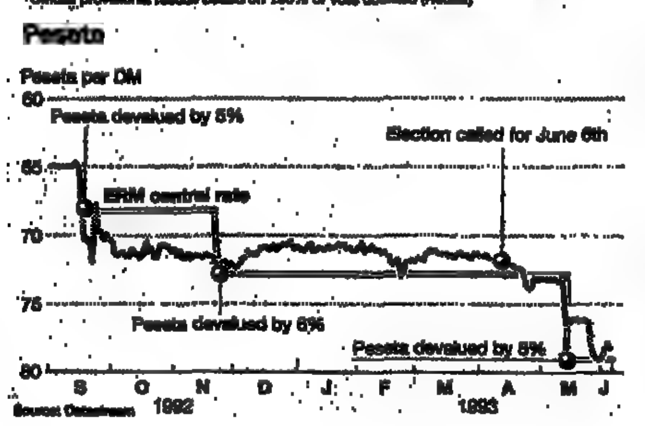
He takes over Germany's biggest and most influential union at a time of mounting tension. Mr Hans Peter Stihl, head of the federal chamber of trade and industry, last weekend demanded a pay freeze lasting several years.

Other challenges facing the union include employers' demands for an end to the steady reduction in working hours and a return to weekend working.

Mr Zwickel's nomination and that of Mr Walter Riester, the Stuttgart regional leader, as his deputy, are expected to be confirmed at a union assembly in October.

Banners promoting Spain's Socialist party and its leader Felipe González are taken down along Madrid's main boulevard the morning after the general election which saw the party returned to power for a fourth successive term





Some comfort for defeated party in Spain

By Tom Burns in Madrid

THE conservative People's Party in Spain is nursing its defeat but should take comfort from the results of the general election on Sunday. It has demonstrably shaken off the image of being only a right-wing party, having captured a sizeable proportion of the centrist vote.

Nor is the PP a backwoods conservative party. It was the socialist party (PSOE) of Mr Felipe González, the prime minister, that won the vote in the *pueblos* (small towns). The PP opposition, led by Mr José Maria Aznar, made strong gains in the big cities and the dormitory towns.

Nor is the PP a nostalgic party of elderly traditionalists. The returns indicate that large numbers of first-time voters voters opted for the centre-right. The PSOE, by contrast, was strongly endorsed by pensioners.

But, if the PP's appeal was so successful among moderate, middle-class voters, among urbanites and suburbanites, and among the young, why didn't it win?

Part of the answer is the cushion of support that Andalucia, Mr González's home region, delivers to the PSOE. With more than 5m voters – more than any other region – this southern swathe of Spain returns 61 members to the 350-seat Congress and 37 of those elected on Sunday from Andalucia were members of the PSOE. The PP returned 20.

The other explanation is the competition that the PP faces from regionally-based parties that share the same middle-of-the-road policies. In Catalonia, the second biggest region after Andalucia, the PP won just eight seats out of a possible 47. The Catalan nationalists, CiU, returned 18 members and the PSOE 17.

The PP was penalised by competing regional parties in the Canary Islands, in Aragón and in Valencia, as well as in the Basque Country where a strong nationalist party, much like Catalonia's CiU, is the second biggest. The absence of the regional parties, and a lowered Basque nationalist vote, would have meant as many as 10 more seats for the PP, perhaps 10 fewer for the PSOE, and could have put Mr Aznar's party ahead.

With strong gains across the board, the PP gained 8.1m votes, 2.8m more than in 1989. Perhaps as many as 1m of the extra votes came from the CDS, the small centrist party that on Sunday failed to return one the 14 it had in the outgoing parliament. The rest of the PP's votes came from the 3m-plus new voters.

Swings towards the PP were very marked in the big cities. In Madrid, it gained an extra 220,000 votes against a 70,000 increase for the PSOE and returned 16 members to the 13 elected by Mr González's party. The PP also, in one of the bigger upsets, captured Valencia.

Although the PSOE captured all eight of Andalucia's provinces, with about half the votes in each, the PP gained the largest number of votes in three of the region's provincial capitals.

To gain power, Mr Aznar has to strike deals with regionalists and nationalists. In all other respects, as Spaniards move to the cities and up the social ladder, and as more young people register to vote, the PP has time on its side.

Belgium apology in Gulf war row

By Andrew Hill in Brussels

BELGIUM has formally apologised to the UK for refusing to supply it with ammunition in the build-up to the Gulf war two years ago.

Mr Léo Delcroix, the Belgian defence minister, apologised to his British counterpart, Mr Malcolm Rifkind, when they met in London last month – the first official opportunity since the Belgian minister took over the portfolio in March last year.

"If Mr Delcroix had been minister of defence then [in 1991], he would have said yes, and if the British asked now for similar things, he would say yes," a spokesman for the minister said yesterday.

The January 1991 decision was seized upon at the time by British politicians as a prime example of EC members' failure to co-operate on foreign and defence policy in the Gulf.

Belgium said it refused because it did not want to undermine a diplomatic solution to the crisis, but the decision soured relations with the UK within Nato. Belgium claims it was one of the reasons why Britain decided not to back a bid by its chief-of-staff to take over one of the top Nato positions last year.

EIB staff struggle with expanded role

By Lionel Barber in Luxembourg

THE European Investment Bank may need as many as 200 new staff in order to cope with its rapidly expanding loan portfolio in the EC, eastern Europe, Latin America and Asia.

Sir Brian Unwin, the new president, told its board of governors' annual meeting in Luxembourg that the EIB was now bigger than the World Bank in lending and borrowing. Staff were "very thinly stretched" as a result of new lending beyond its traditional base inside the Community.

The EIB, which enjoys a Triple A credit rating, lent a record Ecu17bn (£13.4bn) inside and outside the EC last year. It has taken a leading role in the EC's "growth initiative" and also plans to finance projects for 30 Asian and Latin American countries amounting over three years to Ecu750m. The bank has also been asked to extend lending in Estonia, Latvia and Lithuania for a total of Ecu200m over three years.

Sir Brian yesterday avoided a direct appeal for more staff, but pointed out that about a third of staff resources were being devoted to less than 10 per cent of total lending.

Balladur plea on training places

By David Buchan in Paris

FRANCE'S prime minister, Mr Edouard Balladur, yesterday asked employers to increase the number of young trainees from 450,000 to 650,000 within a year, to help fight near-record unemployment.

This was the most concrete demand by the prime minister at a meeting with the 24 senior representatives of the Patronat employers' federation, which he called chiefly to show workers that he is trying everything – including haranguing their bosses – to prevent unemployment rising in the country's current recession.

Patronat executives said that the real problem was not training young people but taking them on full-time, under French minimum wage law.

Mr Francois Perigot, the Patronat president, had earlier yesterday stressed that he had no power to order his members to do anything, and that in general employers could only follow the market rather than anticipate it.

Mr Ernest-Antoine Seillière, a Patronat vice president, described the meeting as highly positive and said it was natural that "having incorporated much of what the employers wanted in his programme, Mr Balladur should want to distance himself a bit from them".

The prime minister promised his government would not turn protectionist, but that he would go to Brussels on Thursday to put France's case on Gatt to the European Commission "in the fight for jobs in Europe".

BIS call on exposure of banks to derivatives

By Robert Peston, Banking Editor, in Stockholm

BANKING and accountancy regulators were yesterday urged to draw up common international standards on banks' disclosure of their exposure to derivatives and other complex financial products.

Speaking on the first day of the International Monetary Conference, an annual gathering of bank chairmen and central bankers, Mr Alexandre Lamfalussy, general manager of the Bank for International Settlements, said that banks' participation in derivative markets has "reduced the transparency of [their] balance sheets."

He said effects on the banking system of any "disturbances" had therefore become harder to predict. He was concerned about possible build-up of "systemic problems".

The BIS, based in Basle, Switzerland, is owned by central banks and serves their needs. It has been the forum for the establishment of common international standards of banks' capital requirments.

He urged accounting and bank supervisory authorities across the world to agree common standards for measuring the risk of banks' exposures to derivatives and common standards for disclosing these risks in their balance sheets.

He also believes that worldwide statistics on banks' exposure to these products should be collected and published, modelled on the BIS's publication of cross-border bank lending.

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Berlusconi: pressure

Pressure grows on Berlusconi to trim his sails

By Haig Simonian in Milan

INTERNATIONAL media magnate Silvio Berlusconi is under rising pressure to scale down his broadcasting activities in Italy, as reform of the country's crowded television and broadcasting frequencies has unexpectedly moved up the political agenda.

The government of Mr Carlo Azeglio Ciampi, the prime minister, is planning to re-examine the Mammi law, named after a former posts and telecommunications minister, which is increasingly seen as excessively favouring Mr Berlusconi's private Fininvest company.

Ministers recognise that the complex and controversial nature of broadcasting reform means any new rules will have to be pushed through well before the general election expected this year.

The sense of urgency has been heightened by the belief that likely electoral reform may loosen party discipline, further complicating efforts to rewrite the broadcasting rules.

The electoral success on Sunday of the autonomist Lega Nord (Northern Leagues) in local elections is also likely to add to calls for greater regional devolution of some of the state-controlled broadcasting media. Although a recent parliamentary attempt by the Lega to transfer one of the three state television channels to Milan from Rome was overturned, it received considerable support from MPs.

Fininvest controls three television channels and accounts for about 45 per cent of the total audience. Three other channels are held by the RAI public sector broadcasting group, while the remaining six national channels are divided among various private broadcasters.

The Mammi law has also been attacked by hostile newspaper proprietors, who claim it gives Fininvest a dominant position in broadcasting and unfairly distorts the advertising market in favour of television.

Demands for change have gathered steam as the recession has hit advertising revenues, which have fallen particularly sharply for printed media.

Fininvest denies that the Mammi law is biased in its favour. It argues that Mr Berlusconi was obliged to give up control of Italy's three pay-TV channels, in which Fininvest now has only a minority stake, and of a national newspaper to meet its requirements.

However, the group has come under growing fire after the arrest of Mr Davide Giacalone, an adviser to the erstwhile minister, Mr Oscar Mammi, in connection with political corruption investigations. Mr Giacalone negotiated a lucrative L420m ($287,000) contract as a consultant to Fininvest, after leaving the posts ministry.

Fininvest spokesmen argue that the contract was entirely above board, and note that Mr Berlusconi, who recently testified voluntarily before magistrates, is one of the few leading Italian entrepreneurs not to have become enmeshed in the political corruption scandal.

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Attali fights his corner on reforms

By Gillian Tett and Peter Marsh

MR Jacques Attali, the beleaguered president of the European Bank for Reconstruction and Development, yesterday demonstrated his continued determination to fight for his position by announcing that the bank's board of directors would meet in the next few days to discuss plans for a structural reorganisation.

Speaking to the American Chamber of Commerce in London, in his first public speech since the bank held its annual meeting in April, Mr Attali refused to give any details about his proposals for the reform, or confirm reports that the reorganisation would leave him in overall charge of the bank, insisting that "there will be no announcement until the board has discussed and decided".

He did concede that "the bank was in growing need of a better structure" and indicated that restructuring of the organisation, which has grown to 600 people, was imminent.

The bank yesterday confirmed that Mr Attali had called the meeting for this week, but denied that this had been in response to reports of an imminent reshuffle or growing pressure on Mr Attali to resign in the wake of scandals over the bank's spending on entertainment and travel.

Mr Attali yesterday refused to confirm reports that Mr Ernie Stern, one of the three managing directors of the World Bank, was being considered for a senior role within the EBRD – though he joked that non-Europeans like Mr Stern were unlikely to be ever appointed president, since "the president of the bank has to be a citizen of one of the countries of the community".

One aspect of any change might be to appoint a new person to act as the bank's chief operating officer, leaving Mr Attali in charge of overall strategy but divorced from day-to-day administration.

Ukraine treaty pledge to US

By Chrystia Freeland in Kiev

THE Ukrainian president, Mr Leonid Kravchuk, yesterday assured Mr Les Aspin, the US defence secretary, that the Ukrainian parliament would approve two critical arms treaties by the end of the month, despite opposition from MPs.

It will, however, be the parliamentarians and not the president who will determine the fate of the Strategic Arms Reduction Treaty, which covers 130 of the 146 inter-continental ballistic missiles on Ukrainian territory, and the Nuclear Non-Proliferation Treaty, which would entrench Ukraine's status as a non-nuclear nation.

Since January, when the US administration began to intensify the pressure on Ukraine to fulfil its non-nuclear pledges, Mr Kravchuk has offered Washington repeated assurances that parliamentary ratification of the two key arms pacts is imminent.

However, as Mr Kravchuk's self-appointed deadlines have expired one after the other without any action from the legislature, the gap between the mood of parliament and the official government line has become increasingly apparent.

Mr Dmytro Pavlychko, the influential chairman of the parliamentary commission on foreign affairs, told Mr Aspin that the Ukrainian parliament ws leaning toward ratification of Start 1 but a postponement of accession to the NPT thus leaving Ukraine with 46 ICBMs and a number of nuclear missiles associated with its strategic bombers. "They [the US group] asked me when Ukraine would be ready to accede," Mr Pavlychko said. "I told them we could give up our last nuclear missile when Ukraine's security was no longer in jeopardy."

Mr Pavlychko also suggested that, contrary to appearances, the call last week by the Ukrainian prime minister, Mr Leonid Kuchma, for the country to temporarily retain some of its nuclear missiles had actually strengthened President Kravchuk's position.

Mr Pavlychko said that the speech by Mr Kuchma, who has been locked in a bitter domestic power struggle with Mr Kravchuk, "has reinforced the president's image as a centrist".

Russian talks may lead to poll

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin's constitutional convention is more likely to produce temporary legislation for early elections and a new division of powers rather than a new constitution.

"It's realistic, I think, and it could be the greatest success the meeting could achieve," said Mr Alexander Vladislavlev, one of the leaders of the Civic Union alliance, which has the support of many managers of state-owned factories.

The same conclusion emerged from remarks by other delegates as the convention, which is attempting to resolve Russia's power struggle, yesterday began discussing Mr Yeltsin's draft constitution in five separate working groups at the Kremlin.

Delegates opposed to Mr Yeltsin signed statements of protest after the president refused to let his chief rival, the parliamentary chairman, Mr Ruslan Khasbulatov, address the opening session on Saturday. Mr Khasbulatov stormed out amid chaotic scenes.

Parliamentary leaders were huddled in the office of Mr Khasbulatov yesterday for talks on what to do next. In a growing rebellion, eight senior members of the 32-member ruling praesidium have complained about his dictatorial style and his failure to draw the right conclusions from Mr Yeltsin's referendum victory last month.

The problem is the Congress of People's Deputies, the only legitimate vehicle for adopting a new constitution, which would see itself abolished.

Early elections, however, not foreseen by the present constitution, would fill a new assembly which could legitimately adopt a constitution.

● An alliance of moderate nationalists claimed yesterday to have won the most votes in Latvia's first parliamentary elections since the Baltic republic regained its independence less than two years ago. However, many of its large Russian-speaking minority were excluded from the vote.

Rebels raise the red flag

Key town falls in Azerbaijan

REBEL troops in Azerbaijan have taken control of the oil-producing former Soviet republic's second-biggest town after intense fighting, seizing four top government officials, Azeri and Russian reports said, Reuter reports from Moscow.

The troops, led by rebel commander Suret Guseinov, captured Gyandzha in the west at the weekend and hoisted the red flag of the former Soviet Union over several buildings, according to the Azeri news agency, Turan.

Reports said Mr Guseinov, a former army general sacked after defeats in fighting with neighbouring Armenia, had captured four top government officials, including the prosecutor-general and first deputy ministers of security and the interior. Russian TV said Mr Guseinov forced the prosecutor to sign an arrest warrant for President Abulfaz Elchibey.

Russia's Itar-Tass news agency said 60 people had been killed in Gyandzha in weekend clashes. It said the rebels had also taken over the southern town of Lenkoran, near the border with Iran. Government troops and special security ministry troops had been sent to Gyandzha to crush the rebellion, it added. A defence ministry spokesman in the capital Baku, contacted by telephone, declined to confirm the reports.

The rebels distributed leaflets in the nearby towns of Yevlakh and Mingechaur calling on citizens to start a campaign of civil disobedience, the agency added.

The Transcaucasian republic has been volatile since it became independent after the break-up of the Soviet Union in 1991. Fighting with Armenian forces over the disputed territory of Nagorno-Karabakh has killed at least 2,500 people since 1988.

In neighbouring Georgia, a Russian-mediated ceasefire between government troops and rebels in the Black Sea region of Abkhazia appeared to have collapsed at the weekend.

Hundreds of people have been killed in Abkhazia since last August when Georgian troops moved into the region to counter claims for more independence.

Austerity move is first test for purged Forum

Nicholas Denton on the Hungarian PM's crisis budget challenge, as former right-wing allies move to form a new hardline party

HUNGARY'S far right has made its long-awaited appearance in the open political arena.

"National-Christian" MPs yesterday began to turn their Hungarian Justice grouping into a parliamentary party after Mr Istvan Csurka and three other right-wing leaders were stripped of membership of the Hungarian Democratic Forum, the leading party in the ruling coalition, at the weekend.

Mr Csurka claimed yesterday that 17 MPs had signed up to the new party. Their defection from the Forum would reduce to single figures the parliamentary majority of Mr Jozsef Antall, the moderate conservative prime minister. The populist leader warned Mr Antall he was "playing with failure".

The first round of the game will come with the vote on emergency austerity measures to reduce the public sector deficit to 6.8 per cent of gross domestic product this year and put it on course for 5.6 per cent in 1994. The measures, part of a supplementary budget and essential if Hungary is to secure a credit agreement with the International Monetary Fund, were placed on the parliamentary agenda yesterday.

In the budget vote Mr Antall has also to contend with the restlessness of the party's two coalition partners. The Smallholders party is riven internally, and the Christian Democrats have taken to calling themselves the "internal opposition".

The government is reduced to banking on supporters' reluctance to force early elections at a time when opinion polls say the Forum would lose with a meagre 10 per cent of the vote. The prime minister has played on these fears by appearing to rule out a minority government and Mr Ivan Szabo, the finance minister, says that a defeat on the budget would lead to a government crisis, bringing forward elections due in May 1994.

That, however, for the time being remains something to concentrate minds. Mr Antall wants a full term to back his proudest boast: that his is eastern Europe's longest lasting and most stable administration.

But even if parliament acquiesces the public may not. The imposition of value-added tax on food provoked hunger strikes last year and the new budget plan proposes an increase in the rate to 10 per cent from 6 per cent.

Nor does it appear that economic recovery could sweeten the pill. Recession in western Europe has depressed exports and the finance ministry recently announced that GDP, far from growing by up to 3 per cent as forecast, may in fact drop by that amount.

But Mr Csurka's support may turn out to have been more imagined than real. An unexpectedly large majority of the Forum's national delegates meeting at the weekend voted to expel Mr Csurka, and some of his 29-strong Hungarian Justice grouping have slipped back into the moderates' fold.

Turnout was also poor at a nationalist demonstration last week against the Trianon treaty, the 1920 peace settlement which cost Hungary two-thirds of its territory and left 3m Hungarians in neighbouring countries.

The jettisoning of the far right allows the Forum to "open a broad gate to society and public opinion", in Mr Antall's words. An aide believes that the appearance of a party on the right at least defines the Forum as the political centre.

Political virtue may therefore earn its reward but officials hope that fiscal virtue, may also bring electoral compensations. Mr Szabo believes Hungarians will not go down the way of "demagogues who build a broad and comfortable road that leads to hell".

Japanese economy still weak, with depressed consumer and capital spending

Keidanren chief rejects optimism

By Charles Leadbeater in Tokyo

THE JAPANESE economy is still weak after a prolonged downturn, Japan's most powerful business leader warned yesterday. He was trying to counter mounting optimism among politicians about the economic outlook.

Mr Gaishi Hiraiwa, chairman of the Keidanren, the country's federation of economic organisations, said consumer spending and capital expenditure were still depressed. The downturn was deepening in provincial cities and manufacturers were being hit by the yen's recent rapid appreciation.

His caution about the economy was echoed by a senior civil servant at the Ministry of International Trade and Industry and Mr Yasushi Mieno, the Bank of Japan's governor.

Mr Hiraiwa's comments are a mild rebuke for government ministers who have been talking up prospects for the economy in the past few days. Mr Kiichi Miyazawa, the prime minister, last week said he believed the downturn had reached its trough, and Mr Hajime Funada, minister responsible for the Economic Planning Agency, yesterday said the economy was bottoming out.

The debate over the economy comes at the start of a week in which several closely watched economic reports will be published. On Thursday the EPA is due to release its monthly report which has been widely trailed as forecasting an imminent recovery. The following day sees the Bank of Japan's quarterly "Tankan", one of the most comprehensive economic surveys.

Mr Mieno, in evidence to the upper house of the Japanese parliament, said the economy's performance would be uneven in the next few months before a modest recovery in the second half of the financial year which began in April.

He warned it was too early to say whether a pick-up in industrial production and sales of some products towards the end of the last financial year was the start of a sustainable recovery.

Mr Yuji Tanahashi, Miti vice minister, said of Thursday's report: "I do not think it will support the notion that the economy has bottomed out."

Kenya sees another year of gloom

By Leslie Crawford in Nairobi

KENYA'S economy grew by a meagre 0.4 per cent in 1992, its worst performance since independence 30 years ago, according to official figures. Inflation rose to 27.2 per cent from 19.6 per cent in 1991, and the country is now over $500m in arrears to its foreign creditors.

The outlook for this year is bleak too. The rains have failed, and the government will have to import food it can barely afford to avert famine.

The balance of payments crisis is expected to deepen. Since November 1991, Kenya's donors have withheld about $400m of aid intended to shore up the country's external accounts because of alleged corruption and mismanagement. Donors insist President Daniel arap Moi's government establishes a track record of economic reform before another donors' meeting at the end of the year. Meanwhile the balance of payments deficit, after allowing for debt arrears, is expected by private sector economists to reach $1bn.

Mounting arrears on Kenya's $7bn foreign debt may force the government to seek a rescheduling agreement with the Paris Club of creditor nations. Kenya prides itself in being one of the few African countries which has not renegotiated its foreign obligations.

The accumulation of problems has led the government cap in hand to the International Monetary Fund and World Bank. After a very public row in March, in which Mr Moi reintroduced foreign exchange controls and lambasted the IMF and the Bank for imposing "suicidal" policies, the president recanted.

Import licences have been scrapped, the Kenya shilling has been devalued and the foreign exchange market freed again. Mr Musalia Mudavadi, finance minister, has promised to streamline the financial sector, which is weighed down by insolvent banks with dubious ties to leading politicians in the ruling Kanu party.

The central bank's efforts to prop up these "political banks", as they are known in Kenya, were responsible for the runaway money supply and rise in inflation last year. Mr Mudavadi has promised to close the financial loopholes that allowed these banks to operate, and conduct an external audit of the worst offenders. The audit has yet to take place.

Economists outside government doubt whether Mr Mudavadi will be able to deliver on his promises. "Closing down insolvent banks strikes at the nerve centre of corruption in the ruling Kanu party," says Mr Robert Shaw, an economic adviser to the opposition Ford-Kenya party. "Mudavadi has good intentions but he is surrounded by a very powerful mafia."

The World Bank has, however, released $85m in withheld funds, and will shortly disburse another $85m tied to export promotion.

Mandela, Buthelezi agree to meet

By Patti Waldmeir in Johannesburg

LONG-AWAITED talks between South Africa's two rival black leaders, Mr Nelson Mandela and Chief Mangosuthu Buthelezi, appeared likely to go ahead soon after Anglican Archbishop Desmond Tutu said the two had agreed to meet at his residence in Cape Town.

He hoped to announce a date for the meeting later this week. If the talks go ahead, it would be the first time the two men had met for negotiations in more than two years.

The African National Congress is understood to have agreed last month that Mr Mandela, their leader, should meet Chief Buthelezi in an attempt to strike a deal with him on a post-apartheid constitution. Agreement between the ANC and Chief Buthelezi's Inkatha Freedom party on the key issue of devolution of power to regions would remove one of the most important obstacles to multi-party agreement on a new constitution.

The ANC has made substantial concessions recently, agreeing that regional governments should have powers entrenched in the constitution which could not be amended by the central government without substantial support from deputies elected to a national house of assembly based on regions.

No deal has yet been struck on the powers to be devolved to regional level, with the ANC proposing far less devolution than Inkatha.

Iran 'close to pact' on debt

By Roger Matthews, Middle East Editor

IRAN claimed yesterday that it was close to agreement with foreign banks on rescheduling some $2.5bn to $3bn of short-term debt.

Mr Mohammed Hossein Adeli, governor of the central bank, told a news conference in Tehran that a settlement would be reached "very shortly" but he offered few other details.

Central bank officials have been wrestling for nearly a year with Iran's worsening short-term payments problem, caused initially by a flood of imports financed through letters of credit. Mr Adeli yesterday put the figure of total short-term indebtedness at $6bn, higher than had been officially admitted but still substantially below estimates by some of Iran's main supplier governments.

Britain's Export Credits Guarantee Department and other international agencies have already suspended cover for Iran because of the payments delays. However, Mr Adeli dismissed reports that Iran's total foreign debts were anywhere near the $30bn level which had been cited, and said this could only refer to the total of all contracts signed.

Several German banks were believed in April to have to have agreed to restructure repayments due on letters of credit, and French banks are now undertaking a similar exercise.

At the end of last year, Iran announced that sharp cuts were planned in imports, although there was scepticism about the extent to which cuts would be implemented before the presidential election scheduled for Friday.

Arabs get nearer to talks

By James Whittington in Amman and Roger Matthews in London

ARAB delegations edged closer yesterday to announcing their participation in the tenth round of Middle East peace negotiations, in Washington on June 15. But Mr Abdul-Salem al-Majali, Jordan's new prime minister, strongly denied his country was close to signing a treaty with Israel.

Earlier, Mr Shimon Peres, Israel's foreign minister, had claimed the two countries had essentially reached an accord. "We just have to take out the pen and sign," he told Israel radio.

However, Mr Majali said that what was being worked on with Israel was an agenda and the terms of reference for negotiations. "It has substance, but it is just an agenda, not a peace agreement", he said.

Radio reports that a peace treaty was ready to be signed were "absolutely and completely untrue," he said.

A meeting of foreign ministers in Amman at the weekend had re-stated the Arab commitment to the peace process but, at Palestinian insistence, stopped short of formally accepting the joint US-Russian invitation to resume in Washington on June 15.

The Palestinians are looking for firmer assurances that the US will become more directly involved in the negotiations, and that Israel will take more measures to ease conditions in the occupied territories.

Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, was due in Amman last night for talks on these issues with King Hussein of Jordan.

A Turkish United Nations soldier guards a bunker near the US Embassy in the Somali capital Mogadishu. Security has been doubled since gunmen shot dead at least 23 Pakistani UN troops in weekend ambushes. At least two gunmen were killed yesterday in a clash with Pakistanis, while Somali leaders loyal to Gen Mohammed Farah Aideed handed five Pakistanis back to UN troops

World Bank luxury draws fire

SOME members of the World Bank's executive board want to travel in style in spite of mounting criticism of the lavish benefits enjoyed by bank staff, AP-DJ reports from Washington.

An air travel policy designed to curb first class bookings was adopted last year by the bank's 24-member board. But it is now poised to exempt itself from the restrictions, officials say.

The board, made up of executive directors representing Japan, Chile, Belgium, China, Australia and English-speaking Africa, also recently backed a proposal to spend $4.7m on a special air conditioning system that would allow directors to continue to smoke in their offices once the bank has introduced a smoke-free policy.

With the World Bank's headquarters reconstruction project already $43m over budget, the special air conditioner is unlikely to win approval. But it is believed that the travel exemption could generate enough board support to go ahead.

Such action could cause a fiscal backlash on Capitol Hill where lawmakers are already questioning spending by the World Bank and other institutions in the wake of disclosures of excessive spending by the London-based European Bank for Reconstruction and Development (EBRD).

Some directors suggest privately the measure would also hurt staff morale and dent the image of the bank, which has long been under attack by critics for its spending habits.

North Carolina Senator Jesse Helms, the ranking Republican on the Senate foreign relations committee, is currently holding up Senate confirmation of US alternate governors of the World Bank and four other development banks while waiting for an air travel report from the Treasury.

Mr Lloyd Bentsen, Treasury secretary, has requested reports on travel policies from the US executive directors at the institutions. The Treasury's report is expected shortly and it is likely to show some stark contrasts among the various development banks, Clinton administration officials say.

According to staffers on Capitol Hill, Mr Helms and other legislators may use the department's findings to argue for cuts in US outlays to the development banks.

The bank's air travel policy, which went into effect on January 1, was put into place after members led by the US, Canada, the UK and Australia lobbied management for greater austerity at the institution, officials say.

Mongolian president heads for easy victory

MONGOLIA'S President Punsalmaagiyn Ochirbat was heading yesterday for an easy re-election victory which was also a defeat for the ruling ex-communist party that dumped him as its candidate, Reuter reports from Ulan Bator.

Preliminary official results from the election on Sunday, Mongolia's first direct presidential poll, showed Mr Ochirbat with a 20-point lead over his challenger, Mr Lodongiyn Tudev, the conservative editor.

With about 60 per cent of the votes counted, Mr Ochirbat is leading with 58.3 per cent of the total, while Mr Tudev has 38.1. The remaining votes were invalid. The results have been finalised in nine out of 18 provinces and in the two biggest cities.

Unofficial tallies kept by the democratic coalition that backs the president show Mr Ochirbat has won the third largest city and three other provinces by large margins as well.

Mr Ochirbat's win will be a grave embarrassment for the Mongolian People's Revolutionary party (MPRP), which controls the government and parliament. The party, which ran Mongolia as a Soviet satellite for almost seven decades, dumped Mr Ochirbat in favour of Mr Tudev in April.

Babbitt emerges as court front-runner

By Jurek Martin in Washington

THE secretary of the interior, Mr Bruce Babbitt, appears to have emerged as President Bill Clinton's favourite candidate for the vacancy on the US Supreme Court.

Several administration officials, confirming Mr Babbitt's status as front-runner, were quoted yesterday as saying an announcement was imminent. The Interior Department spokesman said the secretary had spoken to Mr Clinton several times by telephone last week.

The White House has been considering candidates since Justice Byron White announced his retirement in March, and now needs to move speedily to get the justice confirmed by the Senate before the summer recess.

Mr Clinton is the first Democratic president to be given the opportunity to name a justice to the court since President Lyndon Johnson appointed the late Mr Thurgood Marshall in 1967. Governor Mario Cuomo of New York, of whom Mr Clinton had spoken favourably, withdrew his name from consideration several weeks ago.

Mr Babbitt, a Harvard law school graduate, was Arizona's attorney-general before serving 10 years as state governor from 1977-1987. He ran a creditable campaign for the Democratic party's presidential nomination in 1988.

Nevertheless, his selection would raise some eyebrows in Washington, on the grounds that the administration is in enough difficulty without the removal of one of its most effective Cabinet members.

Mr Clinton's preference for the court is for someone politically adept and middle-of-the-road, whom he knows personally and whose nomination would present few problems. Mr Babbitt, having passed scrutiny by the Senate earlier this year for his present job, fits this bill, as would Mr Richard Riley, now the secretary of education, and reported recently to have declined a presidential approach to serve on the court.

Judicial appointments have been a minefield for the president, ironically given that he and his wife are both lawyers. There were two botched nominations for the attorney-general's position at the beginning of his term and last week he withdrew the selection of Ms Lani Guinier to run the Justice Department's civil rights division.

Although the federal bench, on which judges may sit for life, contains far more Republican appointees than Democrats, there had appeared no shortage of qualified candidates.

After the Guinier fiasco, Mr Clinton badly needs someone whose confirmation would not be in doubt.

● Mr Mark Gearan, a veteran Democratic campaigner who managed Al Gore's presidential campaign, was yesterday expected to be named as White House communications director, AP reports from Washington. Now a deputy chief of staff, Mr Gearan would succeed Mr George Stephanopoulos.

The Supreme Court yesterday kept open a loophole allowing some banks to sell insurance, dealing a setback to insurance agents who have sought to block banks from encroaching on their markets, writes George Graham. The nine justices unanimously ruled that nationally chartered banks could continue to sell insurance from branches in towns with fewer than 5,000 inhabitants.

Babbitt: creditable campaign

Unofficial results in Bolivian poll give Sánchez de Lozada clear lead

Mines owner set to be president

By Christina Lamb in La Paz

MR Gonzalo Sánchez de Lozada, a US-raised mine company owner, looks set to be the new president of Bolivia, after the most peaceful elections in the country's history, held on Sunday.

Unofficial results gave him a clear lead of almost 14 per cent. His Revolutionary Nationalist Movement (MNR) won 36 per cent of the vote, against 21.1 per cent for the ruling Patriotic Accord (AP) led by a former military dictator, ex-General Hugo Banzer.

Claiming victory yesterday, Mr Sánchez said: "The people have voted for change."

However, the final outcome will emerge from a secret vote by Congress on August 6. Projections of the results of the congressional elections, also held on Sunday but not to be confirmed for 20 days, gave Mr Sánchez's party 69 of the 79 seats required for a majority. He will need a deal with one of the 12 smaller parties.

Despite administrative problems, which have delayed voting in some areas until next Sunday, the election proceeded smoothly under the supervision of a new and independent electoral court.

The results confounded pollsters, all of whom had predicted a very close contest. Mr José Gramunt, head of FIDES, the Bolivian news service, described it as "the best possible outcome". He attributed the success of Mr Sánchez to disillusion with the government, as well as to his choice of Mr Victor Hugo Cárdenas, an indigenous politician, as his vice-presidential running-mate. This made a contrast with the European-descended minority, which provides most of Bolivia's politicians, and attracted many rural voters.

Mr Sánchez is well-respected abroad as the author of a stabilisation plan in 1985 which reduced inflation from more than 24,000 per cent a year to 15 per cent.

Bolivia now has one of the lowest inflation rates in South America, at 9 per cent, but is also the continent's poorest country and has considerable fiscal and balance-of-payment problems.

Mr Sánchez being pledged to continue the country's free market policies and austerity programme, his victory was welcomed by the business community.

Macedonia wool suits fuel US ire

US TEXTILE and apparel importers have attacked as "insanity" a new US quota to limit the importing of wool suits from Macedonia to 80,000 a year, cutting the present level by about one fifth, Nancy Dunne writes from Washington.

The decision, by the government's Committee for the Implementation of Textile Agreements, was "another example of the business-as-usual attitude pervading the US textile programme," said Ms Laura Jones, executive director of the US Association of Importers of Textiles and Apparel.

"Is this Macedonia's reward for enforcing the UN's trade sanctions against Serbia, its largest trading partner?" she asked.

The US has been gradually imposing textile and clothing quotas on most eastern European economies, despite a stated US policy of helping their development by increasing trade.

Contest for Los Angeles mayor is too close to call

By Louise Kehoe in San Francisco

LOS ANGELES residents go to the polls today to choose a mayor in a tightly fought contest.

Mr Michael Woo, a 41-year-old councillor and liberal Democrat who is the grandson of Chinese immigrants, aims to become the first Asian American mayor of a large US city. But he faces a close race against conservative Republican Richard Riordan, 62, a political newcomer and millionaire businessman.

The winner will replace Mr Tom Bradley, a Democratic liberal, and one of the first black mayors in the US, who is retiring after 20 years in office.

Mr Woo has won broad support from Los Angeles' large immigrant community. His campaign has focused on South Central Los Angeles, the backdrop for last year's riots which were sparked by the acquittal of four policemen accused of assaulting a black motorist, Mr Rodney King.

In contrast, Mr Riordan appeals to more affluent suburban voters; one of his last campaign stops was in a San Fernando Valley park where a two-year-old was fatally shot during a gang-related incident on Easter Sunday.

Mr Woo, who is well known in the city as a councillor, was an early favourite in the mayoral race. However, Mr Riordan, with superior financial resources has quickly gained recognition. The state Democratic party, alarmed by Mr Riordan's rise in the polls, persuaded President Bill Clinton to make the unusual move of endorsing Mr Woo.

Mr Riordan, who says the top three campaign themes are "safety, safety, safety," has pledged to put 3,000 more police officers on the streets with a plan financed in part by leasing the city-owned Los Angeles International Airport to a private group.

Mr Woo's public safety plan is less ambitious. He promises to increase gradually the number of police with money cut from budgets of the mayor and City Council and from other city departments. He is also supporting a city ban on cheap handguns, known as Saturday Night Specials.

He has won the endorsement of the Los Angeles Times, the city's leading newspaper. It said of him: "In a city with a hundred different voices straining to be heard – in a city with a lot of conflict and much too much bad feeling – he is the better listener, and so the better conciliator. And in this fragmented city, it is the better conciliator who'll get results."

Whoever wins, he is expected quickly to become a leading figure in state and national politics as mayor of the second largest US city, which has become the focus of broad debate on the issues of immigration, racial tension and inner-city decay.

Nasa streamlines US space station

By George Graham in Washington

THE National Aeronautics and Space Administration yesterday concluded a three-month effort to redesign the US space station at half the cost of the original Freedom project.

A Nasa team was yesterday due to present three options with costs ranging from $5bn to $9bn (£3.2bn to £5.8bn) to a White House review panel. The panel will report to President Bill Clinton, who is expected to make his final decision next week on which of the options to select or whether to cancel the project.

The design team has looked for ways to incorporate into the space station ready-made equipment from US companies or from the Russian space programme, while at the same time placating the European and Canadian space agencies who are supposed to be partners in the venture.

One option would be a type of floating power station, with living and working quarters largely accommodated in the space shuttle which would hook up to the station for periodic missions.

The most complete reworking of the design, and the cheapest, would involve a 92-foot cylinder which could be set in orbit in a single launch. It would, however, shadow its own solar panels much of the time, so reducing the power available for scientific work.

While a radically new design might offer the best prospects for cutting the station's costs, it might also alienate traditional supporters in Congress, who must vote the money for the project and who in many cases are committed to the original design.

At the same time the space station could become a victim of the impasse over Mr Clinton's budget plan. Conservative critics of the budget want to increase spending cuts and raise taxes less, but more liberal congressmen are fiercely opposed to deeper cuts in social programmes.

Sacrificing the space station could yield some compromise savings, though not enough to offset the substantial reductions now being sought in Mr Clinton's proposed energy tax, or in a Senate plan to postpone higher income tax rates by six months to July 1.

Democratic leaders were to meet Mr Clinton yesterday afternoon on the budget package, but predicted it would pass the Senate.

Russia stalls over pact with the EC

By Leyla Boulton in Moscow

RUSSIA is refusing to sign a partnership agreement with the European Community over the western satellite market as it wants better access to other EC markets.

Sir Leon Brittan, EC commissioner for trade, announced yesterday that he and the Russian government had clinched an agreement allowing Russia to conduct 12 commercial satellite launches between 1995 and the year 2000.

He said, however, that a partnership and co-operation agreement would not be initialled as expected during President Boris Yeltsin's meeting with EC leaders in Copenhagen later this month.

"The progress that remains to complete that task is still substantial," Sir Leon said, citing as examples artificially low domestic energy prices and the fact that Russian enterprises did not know what their costs were. In an important test case, the Commission will soon have to decide whether to slap punitive duties on aluminium exports from Russia.

The deal offered by the EC provides for regular political dialogue between the Community and the Russian leadership, provisions for inward investment, and most favoured nation status with regard to services, including finance, computer technology, and telecommunications. The EC has a clear competitive advantage in these areas.

Existing curbs on Russian imports include quantitative restrictions on textiles and steel. Exports of enriched uranium are controlled by the need to receive licences for each deal.

As part of its attempt to rejoin the international trading community, Russia has decided to apply for membership of Gatt, the free trade group whose secretary-general, Mr Arthur Dunkel, is due to visit Moscow this week.

● Denmark, which holds the presidency of the EC, hoped an EC-Russia deal could be initialled at the Copenhagen summit in two weeks and is finalising arrangements for the visit of Mr Yeltsin, which should begin on June 19, **Andrew Hill writes from Brussels.**

But the Commission believes it would be unwise to rush into an agreement for political reasons before important problems of substance have been resolved. EC foreign ministers, meeting in Luxembourg today, will have to decide whether enough progress has been made to issue a political declaration of EC-Russian solidarity at Copenhagen, and make Mr Yeltsin's trip worthwhile.

Guangdong set to put fire in 'little dragon'

Simon Holberton on province's growth in electricity capacity

SINCE Deng Xiaoping, China's pre-eminent leader, visited Guangdong 17 months ago the Communist party leadership of the province that borders Hong Kong has set itself the task of catching up with Asia's "four little dragons" – Hong Kong, Taiwan, Singapore and South Korea – in 20 years.

To do that, Guangdong will need a great deal more electric power: even today, demand exceeds supply by at least 30 per cent and blackouts and brownouts are a feature of daily life.

The growth in installed electrical generation capacity in Guangdong has been rapid. In 1981, the province had just 2,800MW of installed capacity; by the end of 1992 it was 11,000MW.

Over the next 17 years the province hopes to increase capacity by a further 69,000MW to 80,000MW. By then it may have achieved installed capacity of 1KW hour per person, up from its current installed capacity of 0.16KW per person. Hong Kong has installed capacity per person of 1.42KW, Taiwan 0.85KW, and the US about 2.8KW.

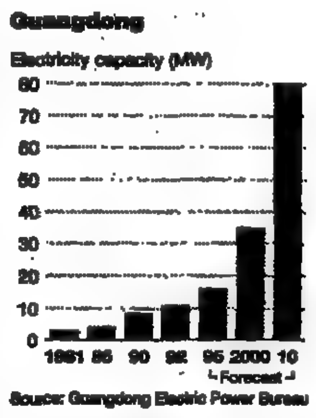
Guangdong's spending on power plants has grown from US$679m (£441m) in 1989 to $795m in 1991. Within that total, the share of imports has risen from $220m in 1989 to $430m in 1991. Larger expenditures are expected in the coming years, making the market for electrical generation equipment, transmission lines and computer systems to operate modern power plants one of the biggest in the world.

Western analysts in Guangzhou estimate the province's expenditure on power generation and related equipment will grow at an annual rate of nearly 40 per cent over the three years 1992-1995, and imports by more than 50 per cent.

Mr Michael Greene, a securities analyst with Warburg Securities in Hong Kong says: "The place is crawling with people trying to sell them electrical generation equipment. China has got to be the world's largest market for power generation equipment . . . ever."

Unlike many markets in China for imports, restrictive trade barriers for power generation equipment are few. China's domestic manufacturers, located mainly in the north-east of the country, are unable to supply Guangdong, making it dependent on foreign suppliers.

The province has the autonomy to use foreign exchange for imports of power equipment. According to one analyst in Guangdong: "Because of Guangdong's urgent need to import large amounts of electrical generating equipment, import procedures are not a serious impediment."



Neither is ownership. Although electricity generation is technically a state monopoly in Guangdong, the local government has been prepared to allow significant foreign ownership of power plants. Shajiao B power station in Dongguan is owned and operated by Hopewell, a Hong Kong property company, and the Zhujiang power station, under construction in Guangzhou, is 50 per cent owned by New World Development, another Hong Kong property developer.

The province has also entered into inter-regional agreements with neighbouring provinces to develop hydro-electric power. For example, it has joined with Guizhou, Guangxi, and Yunnan to develop hydro-electric facilities on rivers running through their territory.

Guangdong also has plans to increase the amount of electricity generated by nuclear power, on current plans more than 20,000MW by 2010.

Mr Chen Wen Hu, deputy chief of section in the planning department of Guangdong's Electric Power Bureau, says: "By 1995 Daya Bay should be producing 1,800MW, but 70 per cent will go to Hong Kong and only 600MW to Guangdong. We have hopes to build three more nuclear power plants. We have finished the preparatory work for the second nuclear plant and in 2000 the first phase – 1,000MW – should begin."

This would still leave nuclear producing less than 30 per cent of the province's needs by 2010. From now until then, the local authorities have thermal power stations planned, or under construction, which will add more than 50,000MW of installed capacity to Guangdong's grid.

One problem is the quality of the coal it receives from northern China. Although the price of coal was deregulated last year – prices have risen nearly 30 per cent since 1991 – the quality and the time taken from mine to power station have not improved.

Mickey Kantor: faces opposition

White House warned over side agreements on labour

US Nafta plan draws fire

By Nancy Dunne in Washington

CLINTON administration proposals designed to attract labour support for the North American Free Trade Agreement are instead drawing Republican and Democratic fire and a Mexican refusal to cede sovereignty over labour rights.

House Republicans told Mr Mickey Kantor, US trade representative, they would oppose Nafta if he negotiated strong side agreements on labour and the environment. They object to setting up of tri-national bodies with power to investigate abuses and recommend trade sanctions as a last resort.

The Republicans accuse the administration of having lost the "vision" of a pact which would boost trade and investment, and warn that the side agreements would channel "disproportional resources" into the creation of multilateral environmental and labour bureaucracies "with little accountability and sweeping mandates".

Last week several Democrat groups, members of the Alliance for Responsible Trade, listed objections to the US proposals as they apply to labour. The proposed standard allowing national enforcement of federal laws, they said, would not prevent a government lowering the standards of its laws to avoid being challenged for non-enforcement.

The alliance wants an independent secretariat, perhaps with members from non-Nafta countries, overseeing labour complaints. Unlike the administration's proposal, it would accept complaints from citizen groups, rather than having to get government to bring a case.

The administration's proposal that a 2/3 vote be required before a complaint is submitted to a panel "certainly ensures that the panels will never be used. . ." the alliance said.

But a Mexican official said: "An independent commission with enforcement powers will never be acceptable to us." He said labour was making impossible demands in an attempt "to scuttle the whole thing".

However, Dr Robert Cohen, a fellow at the Washington-based Economic Strategy Institute who has close ties to labour, insists that some unions would support Nafta if the side agreements were clearer. "They don't have to give labour absolutely everything that's been raised," he said. "But if there was attention paid to them, they could win some formidable support."

Top committee tackles Thai motorway row

By William Barnes in Bangkok

THE THAI government has formed a high-level committee, headed by deputy prime minister Amnuay Viranvan, to try to settle a dispute over the contract terms of an almost completed $1bn (£640m) elevated motorway.

The second stage of a toll road running through Bangkok remains closed despite government demands that it open immediately because of "a national crisis" in the city's traffic system.

Bangkok Expressway, the consortium building the road, says it will open the road toll free for 90 days if the government agrees to settle its dispute within that time. It insists it will terminate the contract if there is no agreement by then.

The state-owned Expressway and Rapid Transit Authority responsible for the project has now effectively been cut out of negotiations and its governor has offered to resign.

Bangkok Expressway, led by the Japanese company Kumagai Gumi, has complained that the government has reneged on contract terms by cutting the toll by a third, not allowing the consortium to operate the road for the agreed 30 years, and disputing revenue sharing arrangements.

Last week Mr Tarrin Nimmanhaiminda, minister of finance, assured representatives of 31 international and 11 Thai banks that they "won't suffer". But a banker said it was worrying that even at this late stage the government had not addressed complaints head on. The lenders, which have committed the equivalent of Bt20bn (£517m), suspended loan disbursements to BECL in March.

Meanwhile, Japan's Obayashi group has pulled out of building Bangkok's third stage expressway. Bankers close to the company say it was disheartened by frequent contract changes and the authorities' inability to agree on land compensation or fix a route.

Recorded music sales rise to tune of $29bn

By Michael Skapinker, Leisure Industries Correspondent

THE international recorded music market grew 9.3 per cent to $28.7bn (£18.6bn) last year, according to figures released by the International Federation of the Phonographic Industry.

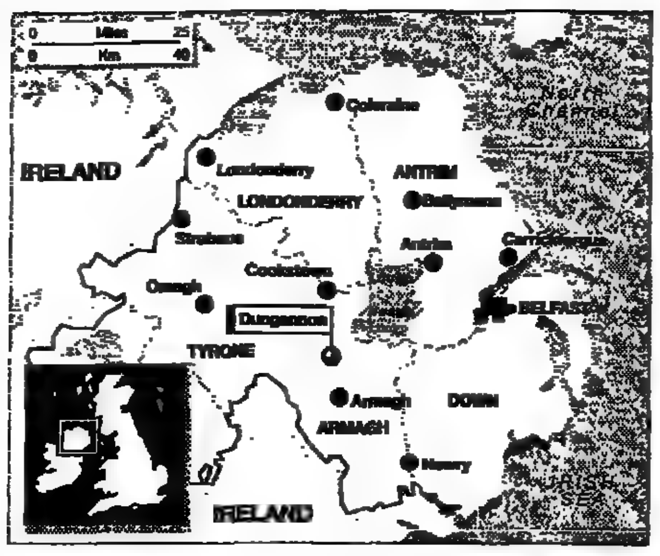
Compact disc unit sales rose 18 per cent to 1.15bn. While the cassette market grew by only 2.8 per cent, tapes remained the most popular music format with 1.55bn sold.

The cassette is a particularly popular format in eastern Europe. The number of cassettes sold in Poland rose to 18m last year from 3m in 1991 while in Russia, where the federation gathered data for the first time, 100m cassettes were sold in 1992.

Despite the continued popularity of vinyl in South Korea and China, worldwide sales of long-playing records fell 19.5 per cent to 130m.

Recorded music sales in the US showed the biggest growth last year with sales climbing 14.9 per cent to $8.9bn. In the UK, sales fell 1.6 per cent to just under $2bn.

South Korean manufacturer picks Ulster



By Our Belfast Correspondent

CARMEN Electronics, the South Korean car radio manufacturer, announced yesterday it is to create 257 jobs at a new factory in Northern Ireland.

The company is investing £9.5m at a site being developed by the Industrial Development Board at Dungannon, Co Tyrone, an unemployment blackspot (map opposite)

Carmen, whose equipment is sold in the UK under the Goodmans name, will be making car stereos at the plant and expects to complete its local recruitment by 1996.

The IDB said it had secured the project in the face of stiff competition from several other European companies.

Mr Robert Atkins, Ulster's ecomomy minister, said the investment will create significant new employment and skills opportunities in the area.

He also said Carmen was attracted to Dungannon partly because of the successful power sharing arrangement on the local authority, as well as low costs and good infrastructure.

"It is also an excellent example of how cohesive local involvement can assist economic development, as councillors and other community representatives from this area, working in partnership with the IDB, were an important factor in Carmen's decision to come to Dungannon."

Unionist and Nationalist councillors introduced a power sharing arrangement on the local authority several years ago whereby the mayor's post is rotated every six months.

Mr K H Choy, president of the company, said it had decided to locate to Northern Ireland because it provided a cost-effective base to expand into the European Community and develop sales in eastern Europe.

"We selected Northern Ireland as our European manufacturing centre because it provides an ideal springboard from which to expand our already substantial field base throughout the EC," he added.

Carmen is part of a manufacturing group started by Mr Choy in 1985 and group sales last year amounted to £68m.

Vincent Currie, leader of the mainly-Catholic SDLP on the council, said: "We decided to forget about internal squabbles and to co-operate, work together and concentrate on the issues that really concern us - unemployment, housing and jobs."

The Carmen factory will be completed by the end of August and production will begin in October.

Carmen is the second major Korean company to move to Northern Ireland.

Details of a third, much bigger, project involving a Korean firm are expected in the next few months.

Sea-change in top job market

Michael Cassell discovers that the 1980s boom may never return

HEADHUNTER Nigel Humphreys has a warning for top managers: "We are not going to return, this side of the millenium, to the sort of job market conditions which professional and managerial people took for granted in the 1980s".

Mr Humphreys, managing director of Tyzack Accord, is trying to find an explanation for the latest dive in confidence over job prospects among the highest levels of British management.

Around 100,000 people may have lost their jobs in the City of London alone since the recession began and, by the end of last year, nearly 300,000 professional and managerial people were out of work.

But the worst is supposed to be over, with recession giving way to a slow and hesitant recovery.

Yet fears of redundancy have in the last few weeks been rising again among many top-rank corporate managers and other professionals, according to the results of a Mori survey published last week by the Financial Times.

Mr Humphreys, like many others in his profession, finds the most recent loss of confidence initially puzzling.

"There has been a quite definite surge in recruitment activity at management level and it is not just people already in jobs moving to new ones. Previously unemployed executives are again in work", he says. But he also acknowledges that there has been an important sea-change, with businesses adapting to what he calls the "new normality".

Mr Humphreys adds:"Managers in highly competitive markets will need skills and abilities different from those which sufficed in the boom years of the 1980s. If they cannot adapt, they will not easily fit in.

"It is no good believing that when companies, this time, emerge from recession, they will explode like corks out of a champagne bottle. There is going to be a great deal of care and caution when hiring - and retaining - at all levels."

Neither are managers likely to be required in the same numbers. A survey by Reed Personnel Services suggests that managers will be in least demand as business conditions improve, thanks to fundamental corporate restructuring already undertaken. The outlook is for a surplus of middle and senior managers over the next five years.

"An awful lot of job losses are simply not directly linked to the recession", according to Mr Paul Charlesworth, development director of Coutts Career Consultants.

"There has been plenty of delayering and restructuring, leaving behind a core of people who are promised continuing job security but who do not necessarily believe it."

Companies, he reports, are also increasingly moving towards a pattern of short-term, interim management for filling posts. The increasing tendency to contract out important elements of the business also raises the prospect of fewer in-house jobs.

However, Mr Peter Trigg, managing director of Drake Beam Morrin, an outplacement specialist, believes the jobs outlook for managers has improved. But he understands why confidence about personal job prospects remains fragile. DBM does have some good news for executives. A survey of its own clients shows that most find another suitable job within seven months.

Heathrow may lose European rank, warns BAA

By Paul Betts, Aerospace Correspondent

BAA, the privatised UK airports operator, yesterday warned that London's Heathrow airport risked losing out to its main European competitors, including Paris, Frankfurt and Amsterdam, unless a proposed £900m fifth terminal was built earlier than planned.

Sir John Egan, BAA's chief executive, said he hoped the new terminal would be completed about six months ahead of schedule to avoid a capacity crunch at Heathrow.

Although the new terminal is at present not due to be completed until late 2001, Sir John said the pace of passenger growth at Heathrow could start outstripping current terminal capacity by 1998.

Passenger volumes at Heathrow have grown by 8 per cent from 42m to 45.5m during the past 12 months.

Sir John said unless the new terminal was built ahead of schedule, passengers risked facing increasing discomfort as the airport became more congested.

"The inevitable result will be that many airlines and passengers will choose to fly not to or through London but to our European competitors," he warned.

A public inquiry into the building of the new terminal is expected to start at the end of next year. BAA would like to see the entire planning inquiry speeded up to hasten development.

Sir John also announced plans for a new £20m flight connection centre at Heathrow designed to make it easier for passengers to change aircraft and terminals by providing smooth connections between flights and streamlined check-in, security, immigration and customs controls.

The new centre will be built between Terminals 1 and 2 and will include a range of shopping and eating facilities as well as a fitness centre, beauty clinic, business facilities and a video games centre.

The decision to build the new complex reflects recent growth in passenger transfer business at Heathrow. Transfer passengers now account for 30 per cent of Heathrow's total annual passenger volume compared with 22 per cent three years ago.

The facility is expected to open in October 1994 when BAA hopes it will encourage more passengers to transfer planes at Heathrow rather than choosing another European airport.

Results, Page 24

Credit figures point to gentle recovery

By Emma Tucker

CONSUMER borrowing remained buoyant in April with a higher than expected rise pointing towards a gently recovering economy.

The Central Statistical Office reported yesterday that net lending to consumers rose a seasonally adjusted £194m in April. The increase followed a revised £196m for March.

The rise, which points towards fairly robust consumer confidence, will have helped to calm fears that spending was slowing. A number of weak economic indicators, including a fall in retail sales and sluggish narrow money growth, prompted fears that the recovery was faltering.

The seasonally adjusted figures – which do not include mortgages and account for about 15 per cent of total private sector debt – also show that new credit advanced to consumers in April totalled £4.42bn, down from £4.74bn in March. In the three months to April new credit advanced rose to £13.57bn from £12.63bn in the previous three months.

Britain in brief

Directors fear state debt will crush upturn

Economic recovery could be crushed unless the government acts urgently to eliminate up to £30bn of public sector debt, according to the Institute of Directors.

Calling for a "revolutionary approach" to government spending, Mr Peter Morgan, IoD director general, said last night that the £50bn deficit was so huge that "no tax increases of acceptable proportions could come near to dealing with it".

He told a conference of businessmen that the scale and rate of growth of public spending constituted the economy's most serious problem.

Managers make airport offer

Management and employees yesterday submitted a bid to buy East Midlands International Airport at Castle Donington, central England.

This brought to four the number of bidders for the airport, whose future ownership has been in doubt since, in early 1991, Derbyshire County Council signalled its readiness to dispose of its 44 per cent stake.

KPMG Peat Marwick, accountants, whose Nottingham office is handling the sale, refused to disclose the identity of the other bidders. But Regional Airports has publicly disclosed its interest and it is thought that Lockheed, the US group, and National Express, the UK coach company, may have made bids.

Unions protest at Ford imports

Unions protested to Ford, the car producer, over the import to the UK of 3,000 Fiestas from a Ford plant in Spain. The AEEU engineering and electrical union said it was "shocked" by the imports, which followed the shedding of 4,000 Ford jobs in the UK last year. The TGWU general union said the company had "let too many people go" at the Dagenham, Essex, plant which makes Fiestas. The unions added that they had been assured by the company that no cars would be imported.

Ford said it was importing the cars because the assembly line at Dagenham was being updated. The modernisation work coincided with a projected increase in demand for Fiestas in the UK this summer.

Talks at BA postponed

Talks between British Airways management and white-collar members of the GMB general union working at London's Gatwick Airport have been postponed and are now due to be held today. The GMB has warned that travellers could face another airport strike this week if negotiations on pay and conditions break down.

A similar dispute with the TGWU general union led to a 24-hour stoppage last week and disruption of most of BA's flights from Gatwick and Heathrow. An agreement between the two sides came too late to avert the stoppage.

Enron to run gas project

Oliver Resources, the south Wales energy company, said it had farmed out a working interest and operating control of its coal-bed methane recovery project in the south Wales coal field to a UK subsidiary of Enron, the US oil and gas company. Enron has taken a 50 per cent interest in the two exploration licences, which cover an area of 670 sq kms encompassing a large part of the south Wales coal field.

Morale declines at Royal Mail

Morale among Royal Mail employees has reached an all-time low, with nearly 70 per cent of the workforce reporting they are unhappy at work, according to an internal employee opinion survey.

ABB unit to cut 900 train making jobs

By Andrew Baxter and Paul Cheeseright

ABB TRANSPORTATION, the UK's biggest train builder, said yesterday it is making nearly 900 of its 6,134 employees redundant across its operations at York, Derby and Crewe because of a severe reduction in UK orders.

The announcement underlines the plight of the UK's railway equipment industry, which is running out of orders because of the uncertainty over rail privatisation, and what it sees as under investment in the sector.

The Railway Industry Association has said that privatisation puts about half the equipment industry's 30,000 jobs at risk immediately, and all of them in the long term.

The brunt of yesterday's job cuts at ABB Transportation – formerly known as Brel – falls on York, where 532 of the 1,600 jobs are to go. Derby will suffer 273 job cuts, while 91 workers will go at Crewe.

The immediate cause was the news late last month that ABB Transportation had lost the battle for a £36m order from Strathclyde Council. Mr Bo Södersten, ABB Transportation's hard-driving managing director, warned that the company would be assessing its requirements.

Brel, the old workshop arm of British Rail, was privatised in 1989 and since last year has been 85 per cent owned by Asea Brown Boveri, the Swiss-Swedish engineering group. ABB said yesterday it had transformed the subsidiary into a "first-class company".

But the York plant, on which £50m has been spent since privatisation, is due to run out of work next May when it finishes the last of a £140m order for Networker trains from Network SouthEast.

Mr Södersten has warned that the plant could close if it does not win any significant orders this year. Its future could depend on winning a £150m order from BR for more commuter trains which may be awarded in August.

Mr Södersten said yesterday: "We see great long-term possibilities for our products and services, both here in the UK and overseas, but it is essential that our domestic customers are in a position now to continue a programme of steady order placement if Britain's railway industry is to survive."

Pickets at the Timex, Scotland, plant show their anger as replacement workers arrive yesterday morning

Scottish trade unions appeal for overseas support in Timex dispute

THE SCOTTISH TUC, the trades union body, yesterday told pickets outside the Timex factory in Dundee, Scotland, that it was asking unions and political parties overseas to support the protest by boycotting the company's products.

Mr Bill Speirs, deputy general secretary of the Scottish TUC, told a crowd at the plant that the STUC was planning to send messages to labour groups worldwide calling for a boycott.

Mr Speirs was speaking as demonstrators picketed noisily outside the plant, as they have done throughout the four month dispute.

There was no repeat of the violence which has marked previous demonstrations.

The STUC's move could antagonise leaders of the AEEU engineering union, who are hoping to negotiate a solution to the dispute.

A peace plan worked out by union leaders and Timex was last week rejected by 300 sacked workers.

Traffic ban plan for City core

By Richard Evans

INITIAL reaction from bankers and City of London businessmen has been largely favourable to a Corporation of London proposal that non-essential traffic might be barred from the core of the City as an anti-terrorist measure.

The plan, the most radical element in a package now being drafted, is still at the blueprint stage and will be put out to public consultation later this month. If accepted, it could be in operation by the end of the year.

Mr Michael Cassidy, chairman of the corporation's policy and resources committee, said that two large terrorist bombs in 14 months had not undermined the City as Europe's leading financial centre, but firms had to be reassured.

Corporation officials led by Sir Francis McWilliams, the Lord Mayor, have held meetings with over 400 City institutions and locally based companies to discuss improved security. Most have supported a vehicle ban, although some have argued it would create too much disruption and would give too great a propaganda coup to the IRA.

Mr Cassidy argued that as more than 90 per cent of City workers commute by train and walk to offices, there was support for a car ban, if public transport could be improved.

Sir Andrew Hugh Smith, chairman of the Stock Exchange, has given pedestrianisation qualified backing, provided access for vehicles could be maintained for normal business purposes.

The restrictions planned by the corporation are only likely to apply to a few hundred square yards at the heart of the City, covering the area around the Bank of England, the Stock Exchange, Mansion House and the NatWest Tower, although some bankers want them to cover the whole of the Square Mile.

Access would be limited to buses, taxis and a small number of specially licensed vehicles, although temporary licences could be granted for anyone giving a good reason for driving through the City. Any vehicles without a licence would be stopped at one of about six check points.

The corporation began its detailed examination of security after the Bishopsgate bomb in April placed in an abandoned tipper truck. A year ago 100lbs of explosives packed into a car wrecked the Baltic Exchange. Both bombs caused millions of pounds of damage.

Anti-terrorist measures already in hand are the removal of all litter bins in the City until they can be made bomb proof.

London's position as a major international financial centre is putting heavy pressure on the authorities and police to devise a policy based on a deterrent rather than containment. A third big bomb attack could make some foreign companies think about relocating elsewhere in Europe.

Lloyd's could attract '£500m' new capital

By Richard Lapper

LLOYD'S OF LONDON could attract up to £500m in fresh "incorporated" capital by the beginning of next year, according to an official working on a new rulebook for corporate investors at the insurance market.

At the end of April Lloyd's announced that it was seeking to attract new corporate investment to compensate for the recent fall in the number of Names, the individuals whose assets provide the market's capital base.

A draft of the rulebook, which sets out the legal, accounting, regulatory and tax implications for "incorporated Names", should be be sent to Lloyd's agencies by the end of this month, with a definitive version set to be completed by mid-summer.

Lloyd's has already decided to modify its plans to auction capacity for incorporated Names announced last year. In a letter to market practitioners last week Mr David Rowland, chairman, said it was "inappropriate" to continue with these plans.

Trouble brews as beer follows Europe's recipe

Philip Rawstorne on why brewers are cutting strength and raising prices under the new duty code

NATIONAL brewers came under fire yesterday for reducing the alcoholic strength of many of their beer brands to ease the impact of a new system of duty.

The Brewers' Society claimed that the new system – which replaces the 113-year-old method of charging duty at the pre-fermentation stage of production with a tax on the alcoholic strength of the finished product – would increase over all duty by £64m, or 3 per cent, a year.

Customs & Excise insisted that the new system would not raise the overall revenue burden on the industry. Officials are examining the calculations and said that adjustments would be made in the next budget if necessary.

Consumer groups attacked the move which comes at a time when beer prices are again being raised above the rate of inflation.

Bass, the country's leading brewer, has announced its wholesale beer prices will be increased by an average £6.62 for a 36-gallon barrel, a rise of 3.58 per cent. Carlsberg-Tetley is expected to increase prices by an average 3 per cent.

Mr Andy Sangster, research officer for the Campaign for Real Ale, condemned the reduction in the strengths of some beer brands as a cover for higher prices. "Ford does not alter the specifications of its cars when taxes go up," he said, "and we see no reason why brewers should start fiddling the strength of their beers. It shows a lack of respect for their products."

Ms Ruth Evans, director of the National Consumer Council, said: "If brewers are cutting the alcohol content of their beers, they should be advertising this fact widely, not trying to slip weaker beer past their customers without telling them. We are not against weaker beers in principle – but consumers who prefer the stronger variety will feel that they are being charged the same price as before, for less."

Of the five national brewers, only Whitbread does not intend to make any changes to the strength of its beers. The tax effects on its portfolio would be roughly neutral, the company said.

Bass, which estimates that the changes will increase taxes on its beers by more than £20m a year, is to reduce the alcohol by volume (abv) percentage of about a score of its brands.

The original gravity of most of the affected brands will be raised to preserve taste and flavour, the company said.

National brewers had been expected to bear a relatively higher burden of duty after the introduction of the new system on June 1 because of the higher strength lagers and ales in their portfolios.

Though the new scheme was planned to raise the same amount of revenue from the industry, it was clear from the outset that these beers would attract more duty and others would be less heavily taxed.

The national brewers are also suffering the loss of benefits they have drawn in recent years from the old system which gave a 6 per cent duty free production allowance for wastage. Wastage in many of the larger brewery operations is less than 2 per cent because of improvements in brewing technology and efficiency.

Complaints from smaller brewers about the advantages the old system gave the nationals were among the reasons for the change. But the switch to end-product duty was also encouraged by the creation of the European single market. Other EC countries charge duty on the finished product.

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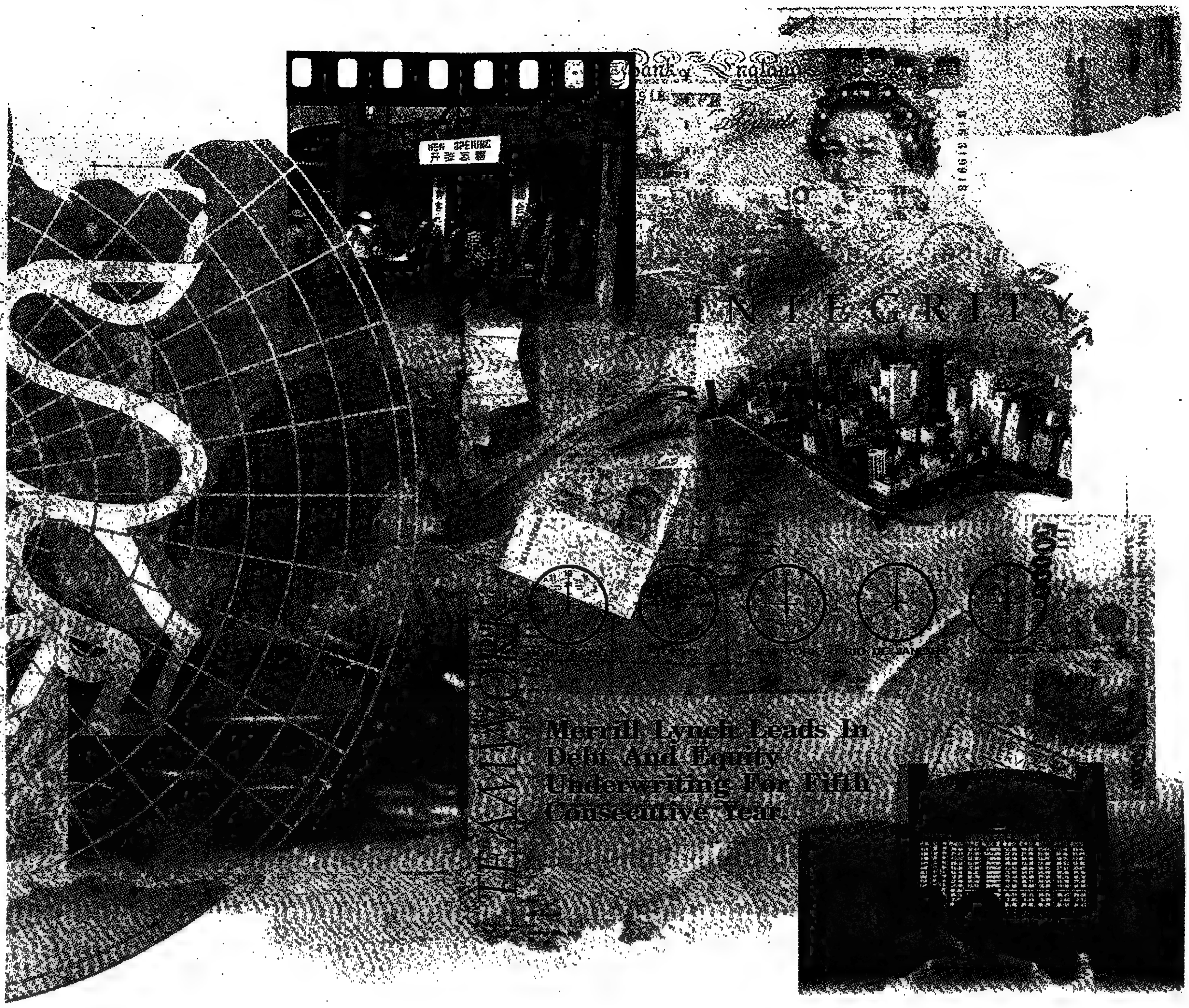


TECHNOLOGY

Four years after the Exxon Valdez disaster, the route to safer tankers is not all plain sailing, says **Hugh Carnegy**

Slowly acquiring a thicker skin

Standing on the vast deck of a 300,000-tonne supertanker and peering into one of its cavernous, 27m-deep cargo holds, you quickly form a chilling impression of the enormous quantity of crude oil that can be spilled into the sea when such a large ship is ruptured.

As accidents such as the foundering of the Braer off the Shetland Islands in January this year and the running aground of the Exxon Valdez off Alaska in 1989 showed, the results can be calamitous for the local environment.

Next month, however, a significant step will be taken in the quest for safe, or at least safer, oil tankers. Under new rules made by the International Maritime Organisation (a UN-backed body that sets safety standards for world shipping), all new supertankers commissioned from that date will have to be double-hulled – that is, have a two-layer outer skin that will make the oil carriers more resistant to collision or grounding.

The rule seems to make sense. A Very Large Crude Carrier, or VLCC, is a gigantic, internally sectioned, flat-bottomed steel barrel with a large engine at the stern and a relatively small superstructure to house the computers and the handful of humans required to load, sail, manoeuvre and discharge it. Doubling the outer casing of the barrel should significantly increase its ability to withstand puncture.

But the move to develop "environmentally-friendly" oil tankers is not all plain sailing. First, some shipowners say double-hulled tankers may not reduce spillages in big supertanker accidents. Second, they are more expensive to build and operate than traditional single-hulled, or even double-bottomed tankers, which has made many oil companies and shippers reluctant to charter them.

The Odense Steel Shipyard, owned by the big Danish group A P Moller, this year delivered the world's first two double-hulled VLCCs, out of six it is building for Maersk Tankers, another A P Moller company. The 300,000-tonne Eleo Maersk and Elizabeth Maersk carry their ballast in the minimum 3m-wide space that runs between outer and inner hulls.

The builders say the 344m-long ships are designed to have levels of resistance to breaches and to "raking damage" – the opening of the bottom of the ship – up to 25 per cent greater than IMO specifications. But no-one is arguing that the advent of the double-hulled tanker will mean an end to supertanker disasters. In fact, says Ola Lorentzon, chief executive of Sweden's ICB Shipping, it is doubtful that oil spills would have been avoided in any of the world's most notorious tanker accidents if the ships had been equipped with double hulls.

"In the case of the Exxon Valdez, it wouldn't have made any difference if it had been double-hulled, according to what I understand from the experts," he says. His point, not denied by shipbuilders, is that even a double-hulled ship could not withstand the force involved in driving fully laden onto rocks.

Lorentzon sees the new regulations on double-hulled ships as deriving mainly from political demands for action after spectacular accidents. He wonders whether the extra money to be spent on building double-hulled tankers – which are 15 to 20 per cent more expensive than a standard single hull tanker, costing around $85m (£56.3m) – could be better spent on other anti-pollution measures.

According to A P Moller, tanker accidents account for only 5 per cent of all oil pollution at sea. Tanker operations account for 7 per cent, while 14 per cent comes from other shipping and 61 per cent from industrial waste. At present, only 14 of the 51 VLCCs under construction worldwide are double-hulled, but the new regulations mean that soon any replacements for the world's 450-strong VLCC fleet will have to be to the new specification.

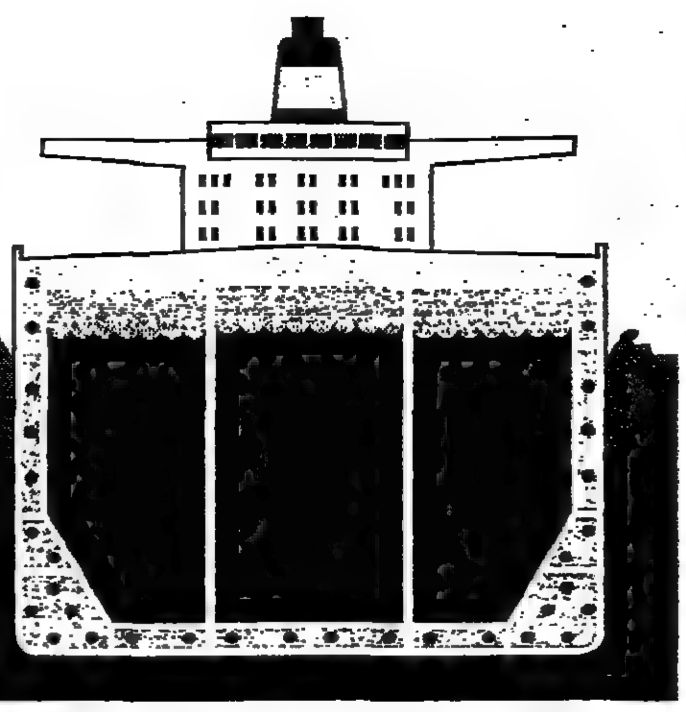
This brings up another complaint that unites shipbuilders and operators – that double-hulled tankers are, in effect, discriminated against. Many charges, such as port fees, are levied on the volume of a ship. A double-hulled tanker inevitably has greater volume than a single-hulled vessel and can cost up to 20 per cent more in port fees.

The complaint extends to single-hulled tankers with segregated ballast tanks. Segregated ballast tanks were made compulsory on all tankers built after 1980 to cut down on pollution from the flushing of oil-contaminated ballast – a leading source of oil pollution.

A growing number of old tankers is likely to be de-commissioned in the next few years because of the difficulty of meeting increasingly stringent standards. Nevertheless, more than half the VLCCs now at sea were built in the 1970s and there remains a financial incentive to operate old "dirty" tankers rather than more modern ships.

"A major part of the oil industry is still looking for the cheapest freight, regardless of the environmental aspects," complains Tommy Thomsen, vice-president of A P Moller. "So far, society has chosen not to reward environmentally-friendly tankers."

Double-hulled tanker



Part of the office furniture

Microsoft is unveiling a new partnership, writes **Geof Wheelwright**

Imagine being able to operate all the equipment in your office from one screen, or each entertainment product in your home from a single remote control device.

Instead of pressing different buttons on different machines for different functions, these could all be connected to save users' time, money and the frustrating need to remember which machine does what and how.

Companies in the electronics, computer, office equipment and entertainment industries have been thinking along these lines for some time. Now that wireless communications look like replacing endless lines of cable, such ideas have been given a new impetus.

Tomorrow, Microsoft, the dominant US software company, will take a significant step toward the future linking up of electronic equipment by unveiling new partnerships with office equipment makers to produce photocopiers, facsimile machines and laser printers controlled by the company's software.

Microsoft's contribution will be a new office equipment "operating system" that will let users control this equipment by merely pointing at pictorial representations of their functions on a built-in computer screen. The company has been working on this technology for more than four years and it similar to the company's existing Windows software.

The software operating these new devices will, however, include the ability to be controlled by Microsoft Windows when connected to a personal computer. It will also be "multi-tasking" so that it can allow the office equipment in question to handle more than one job at once.

One of the partners in this deal – Hewlett-Packard – says it can foresee the day when this technology will allow it to produce printers with no external switches, buttons or controls. All of these tasks will be handled by software and controlled by a PC running Windows. The devices, to be produced initially under Microsoft's new office equipment partnership, however, will be capable of operating without a PC connection, although a small, PC-style flat screen and computer-generated "icons" will be used to provide the control. Other partners are Compaq, Ricoh, Minolta, and Ericsson.

These partnerships is only one element in the long-term strategy outlined by Bill Gates, the head of Microsoft. He wants to put Microsoft technology in almost anything that uses electricity.

His intention is to make Microsoft software an integral part of office equipment.

Gates also foresees Microsoft's involvement in the design of specialist software for "broadcast" information to and from portable computers over wireless networks, personal information management applications for use on hand-held computers, electronic and voice mail from portable systems and the transfer of data to and from desktop systems automatically.

Finally, he has committed Microsoft to work on designing Windows into consumer electronic machines such as video cassette recorders, audio systems, home telephones and information browsing systems run over cable television networks, as well as advanced computer games, Windows-based photography systems and multi-media education software.

Gates says many of these projects will require partnerships with companies in different industries, but Microsoft has enough funds for such strategic investments. He cites the company's investment last year in London publishing house Dorling Kindersley and the subsequent development of multi-media products based around the company's educational books.

"Partnership is key – getting people to build these devices in an intelligent form so that other people's machines can talk to their machines," says Gates. "We don't want to dictate partners or form factors – we are working with dozens of manufacturers to bring out systems that contain specialised (software) code."

Gates sees a future where more and more consumer electronics technology is built around the PC – and that which is not will at least use a form of Windows as an underlying control technology. He predicts that in the future many people will have a few wall-mounted colour, flat screens in their house for TV, video games and information management, with the controls all condensed onto a single hand-held unit.

In the short term, Gates does not want to let video game manufacturers maintain "control of the television" as an interactive entertainment medium and is investigating the role Microsoft can play here. "It's a question of who controls intelligence to TV – which at the moment is Nintendo and Sega," he says. "But what about resolution (sharpness of the TV), what about desire to sit far away from the device and regulatory issues. These are the kinds of things Microsoft explores very carefully and we expect to make some bets here – on telephone control, information browsing and the idea of the PC as an advanced entertainment machine. This will take some time to shape up and see exactly what will emerge – but we will be working with lots of partners on this."

A super PC from H-P

While many companies are talking about creating vast new markets with pocket-sized computerised gadgets that are variously called "personal digital assistants" or "information appliances", Hewlett-Packard has this week introduced a "super-portable" personal computer that addresses the needs of a broad range of "mobile professional" computer users.

The H-P Omnibook 300 is a lightweight and compact PC with a full-size keyboard and screen and long battery life. It is bigger than a "palmtop" computer, but lighter than a "notebook" PC.

It is a 386-powered PC that comes fully loaded with Microsoft Windows, Word and Excel software, as well as some personal productivity and communications software. Weighing in at 2.9lb and measuring roughly 11in by 6.5in and 1.5in thick, the Omnibook runs for five to nine hours on four standard AA batteries.

H-P is offering two models; one with a built-in 40MB hard drive with a list price of $1,950 (£1,290) in the US and the other with solid state data storage that will sell for $2,375. Extras include an internal modem and a power adapter. Neither of the Omnibooks includes a floppy disk drive, but software or data can be downloaded from a desktop PC via a serial port or an innovative infra-red link that is expected to become standard in desktop computers of the future.

Special features of the Omnibook include a "pop up mouse", that springs out of the side of the computer. It behaves like a desktop computer rodent, but because it does not require a flat surface it can be used, for example, in the limited confines of an aircraft "tray table". H-P has made some compromises to minimise power consumption. The screen is monochrome and the data storage capacity is lower than that of most notebook computers. This is a briefcase-sized PC that overcomes the limitations of existing PCs.

Louise Kehoe

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BUSINESS AND THE LAW

Haggling a discount on criminal justice

John Mason on calls for formal plea-bargaining in England

The introduction of a formal system of plea bargaining into the English criminal justice system – a move that would have far-reaching consequences for the courts' handling of all crime from burglary to fraud – now appears a distinct possibility.

Plea bargaining, where defendants agree to plead guilty in exchange for a lesser sentence, is known to be under active consideration by the Royal Commission on Criminal Justice due to report in July. The growing consensus among lawyers is that the commission is likely to favour it if sufficient safeguards can be built in.

The move, which is supported by the bulk of the legal establishment, is driven by largely pragmatic considerations. The post-war rise in crime has left the English legal system dangerously overstretched when dealing with all forms of crime. Plea bargaining is seen as a means of radically reducing the number of cases going to trial.

The legislation of the 1980s aimed at financial crime has created a separate problem – lengthy and costly fraud trials. The problems encountered in fraud trials, such as Blue Arrow, has left confidence in such proceedings dented.

There are a number of suggestions, such as earlier disclosure of the defence case, on how to bring these trials under control. But the complex nature of the offences means there is only limited room for improvement. The problems of making these trials shorter and more manageable are likely to remain almost intractable. Plea bargaining is seen by many as the most effective solution.

To some degree, the introduction of formalised plea bargaining would amount to an extension and formalisation of what already takes place. Although officially discouraged, prosecutors and defence lawyers often confer informally with the frequent result that some charges are dropped if a defendant pleads guilty to a lesser charge.

But what is not possible is negotiation about sentence. It was once possible to obtain a reasonable indication from the judge before trial what length of sentence he had in mind. The scope for this, however, has been reduced in recent years.

Under the plea bargaining system favoured by most judges and barristers, judges would indicate the length of sentence before trial by reference to a system of guaranteed "discounts" for an early plea.

A point of contention would be whether or not to adopt the American practice of giving the prosecution the power to decide sentence discounts – a power seen by many lawyers as likely to result in unfair pressure on defendants to plead.

With fraud and other financial crime, plea bargaining is also in line with current thinking about the enforcement of financial regulation. With a loss of confidence in the UK's current self-regulatory regime expressed by several leading City figures over the past three years, many have looked to the model provided by the American Securities and Exchange Commission as the way forward.

This is the approach favoured by the Serious Fraud Office whose director, Mr George Staple, has advocated plea bargaining to the Royal Commission as the most effective way of cutting the time and expense of fraud trials.

Mr Staple's thinking, based on the American experience, goes further. In line with the reassessment of which financial misdemeanours are dealt with by the courts and which by regulatory authorities, he sees the SFO and other criminal prosecutors collaborating further with regulators. Plea bargaining could then be part of a system which includes substantial fines, restitution to the victims of financial crime and other regulatory penalties such as disqualification.

The intention is clear. Mr Staple emphasises that the public interest demands that, because of the seriousness of some offences, such cases be dealt with by the courts.

But the prosecuting authorities will be looking for a guilty plea at a very early stage, perhaps even before charges are brought.

The scenario envisaged is one where, after the SFO first acts, defendants co-operate from the outset knowing that plea bargaining will be available. Deals will be done along the lines of those done in the USA in the case of Mr Ivan Boesky.

How this would work in practice is uncertain. With more "routine" crimes, such as burglary, the issues are more straightforward and most lawyers expect the introduction of plea bargaining would produce fairly instant results.

With white collar crime, the outcome of its introduction is less predictable. One lawyer speculated how the Guinness scandal might have been dealt with had there been formal plea-bargaining. How would Mr Gerald Ronson, who received a one year jail sentence and a £5m fine for his role, have responded if given the chance to negotiate at an earlier stage?

Guilty pleas from Mr Ronson and others convicted over Guinness would have avoided the long court proceedings that took place over some six years. On the other hand, how much room for manoeuvre would the judge and prosecutor have in such a case before the final deal was seen publicly as resulting in too lenient a punishment?

The public appetite for such a pragmatic approach to the delivery of justice would have to be addressed. Safeguards to prevent the innocent being pressurised into pleading guilty is the other main concern.

Among defence solicitors in white collar crime, opinions vary on how great a danger this would present. According to Mr Anthony Burton, of Simons, Muirhead and Burton, such problems would be relatively easily dealt with in the case of the average fraud defendant.

Usually intelligent, middle class and well-versed in the techniques of negotiation, most fraud defendants would be better able to cope with the pressures of bargaining, he believed. They would also have been in contact with their lawyers for longer than "blue collar" defendants and be surer of their advice.

Mr Burton sees principled reasons for introducing plea bargaining. Any defendant should have the right to know whether or not he faces a jail term. But he does not think this will necessarily lead to the very early pleadings some prosecutors hope for. Defendants would still want to wait until the case against them was clear before starting to negotiate.

Mr John Clitheroe, of London solicitors Kingsley Napley, foresees the introduction of formal plea bargaining resulting in a tremendous increase in the pressures on both defendants and their legal advisers.

Any advice to plead guilty could only be given with considerable time and thought, particularly given the possibility that pleading guilty to a less serious charge could still result in loss of reputation or livelihood through disqualification.

A business background and experience of negotiation may have only limited value to the white collar defendant considering making a plea, he said. Unlike many burglars, it is likely to be their first encounter with the criminal justice system.

"There is nobody in the world who panics more than the City professional facing the prospect of going to jail," he said.

German advertising ban overruled by court

EUROPEAN COURT

The European Court of Justice has ruled that a price advertising restriction in the German unfair competition law infringes Rome Treaty rules on free movement of goods.

The ruling confirms that the treaty may outlaw national marketing rules which are capable of hindering the sale of goods imported from other European Community countries. It makes no difference that the offending rule applies equally to domestic products.

The ruling followed a reference from the Bundesgerichtshof in unfair competition proceedings brought against Yves Rocher GmbH. The German unfair competition law prohibits comparative price advertising which is eye-catching in the sense that it draws attention to a new price of a product by juxtaposing it with the old price. Yves Rocher had used this form of advertising to promote the reduced prices of its products made in France and sold largely by mail order through its subsidiary in Germany.

Confirming earlier case law, the court said national legislation restricting or banning particular methods of advertising or promoting goods was capable of restricting the volume of imports since it affected the choice of marketing methods available to imported products.

The fact that a business was forced to adopt a method of advertising and sales promotion in the member state concerned, and to abandon a method which it considered effective and which it used in other states, was capable of restricting imports.

This means the national law will be precluded by European Community law unless it is justified as necessary to satisfy a legitimate public interest such as consumer protection or the prevention of unfair competition.

The German government claimed the price advertising ban was introduced to protect the consumer since price comparisons frequently lead to mistakes by consumers. The consumer can easily be misled because he is not in a position to check the new price against the old. Advertising with price comparisons is also likely to suggest a price level which is more advantageous than necessarily justified.

The court added that the national law must also be proportionate to the objective pursued. The court said the German law was not limited to price comparisons which were wrong but covered those which were right as well if they were eye-catching. It concluded that price comparisons were prohibited not because they were wrong but because they were eye-catching. It followed that all eye-catching price advertising was prohibited whether true or false. Accordingly, the ban went beyond what was necessary to protect consumers from misleading advertising.

The ban went too far because it applied to price comparisons which were not misleading and which were true and therefore useful in helping consumers exercise choice. An examination of other national laws showed the consumer could be informed and protected by means less restrictive of intra-Community trade.

The German government also argued that the ban did not infringe Rome Treaty rules because it had an insignificant effect on the free movement of goods. The court said except where the effect on trade was hypothetical, the intensity of the effects on intra-Community trade was irrelevant.

C-126/91: Yves Rocher GmbH, ECJ FC, 18 May 1993.

French restrictions on contact lens distribution upheld

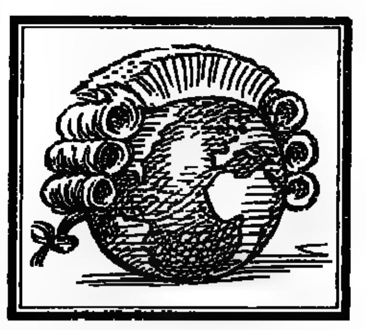
The court has ruled that French legal requirements that optical equipment can only be sold by qualified persons are precluded by the Rome Treaty. However, it said requirements that lenses should only be sold in business premises run by qualified opticians were justified under the treaty's exception for import restrictions resulting from national marketing laws intended to protect public health.

In the absence of EC rules on public health, Community countries can make their own rules provided they are in accord with the treaty and are proportionate to the objective of protecting public health.

C-271/92: Société Laboratoire de Prothèses Oculaires v Union Nationale des Syndicats d'Opticiens de France, ECJ 6CH, 25 May 1993.

BRICK COURT CHAMBERS, BRUSSELS.

LEGAL BRIEFS



Italy issues bank guidelines on laundering

Detailed guidelines have been issued by the Bank of Italy to banks on the operation of a 1991 law aimed at preventing banking channels being used to launder money from serious crimes. The law puts banks under an obligation to report "suspicious" transactions carried out by their clients. According to Italian law firm, Carnelutti, the guidelines provide a list of unusual transactions which should put banks on the alert.

The list includes: transactions disproportionate in value to the financial standing of the client or to the nature of the transaction itself; transactions in cash for substantial amounts; frequent transfers of substantial amounts to or from abroad; frequent transactions on behalf of third parties who never appear; and refusal by clients to provide information when requested.

Retrial in $1bn treasure case

The three-year battle in the US courts over the treasure of the SS Central America, which sank in 1857 180 miles off the South Carolina coast with $2m in Californian gold on board, is about to reach its climax following a refusal by the US Supreme Court to hear an appeal by the explorers, Columbus-America Discovery Group, who found the ship in 1987.

At the end of June, the US District Court in Norfolk, Virginia, will retry the case to determine the salvage award due to the explorers. Opposing them are 39 insurance companies awarded ownership of the wreck on the basis that they paid for the original loss – despite not producing policies or evidence of claims of payment and not searching for the ship for 135 years. The treasure is now worth about $1bn.

MANAGEMENT: THE GROWING BUSINESS

—In a— Nutshell

Warning to young entrepreneurs

T-shirt printing and car valeting services should be avoided by young people starting their own business, according to a survey by the Prince's Youth Business Trust in the West Midlands.

Jewellery making, floristry and horticulture are more rewarding sectors, according to the trust, which helps disadvantaged 18-25-year-olds into business. Only 17 per cent of T-shirt printers and 20 per cent of car valeting businesses backed by the trust have survived. But all the florists and horticulturists it backed and 78 per cent of jewellery makers are still in business.

PYBT, 5 Cleveland Place, London SW1Y 6JJ.

The Smart way to gain a grant

A record 1,450 businesses have applied for 180 UK Small Firms Merit Awards for Research and Technology (Smart Awards), reinforcing calls for more funds to be made available to expand the scheme.

The Smart initiative offers grants of up to £45,000 to help businesses employing fewer than 50 people to develop innovative technology. The winners, who will be announced at the end of July, may then apply for a stage two award of up to £60,000.

Contact Department of Trade and Industry. Tel: 071 215 5000.

Increased support for the 3i club

The 3i Communication Club, established to represent the views of dissatisfied companies in the investment portfolio of Britain's largest venture capital group, has signed up over 250 members or about 10 per cent of smaller businesses with equity backing from 3i. This level of membership indicates there is enough interest for the club to continue its activities.

In search of funding

FT writers look at local finance schemes providing small amounts of money

A long-standing wish of many small business lobbyists is the creation of a government-backed fund to provide low-cost, long-term loans to small businesses, writes Charles Batchelor.

But cheap-rate finance may not be in such short supply in the UK as is often supposed, according to a survey* by Kingston University's Small Business Research Centre. It has identified no fewer than 63 loan schemes in England, some national but most of them operating locally or regionally.

These schemes offer as little as £500 rising to £1m, though most cater for businesses seeking up to £10,000 to finance start-up or further growth. Most have repayment "holidays", often of six months, and many offer training and other support alongside hard cash.

The most common characteristic of these schemes is that they usually back businesses which would have difficulties obtaining finance from conventional sources. Many owners do not have track records or cannot offer security.

The schemes often have a social purpose as well, helping unemployed people in inner cities or businesses in areas of industrial decline. Most involve a public sector or non-profit organisation linking up with a private sector source.

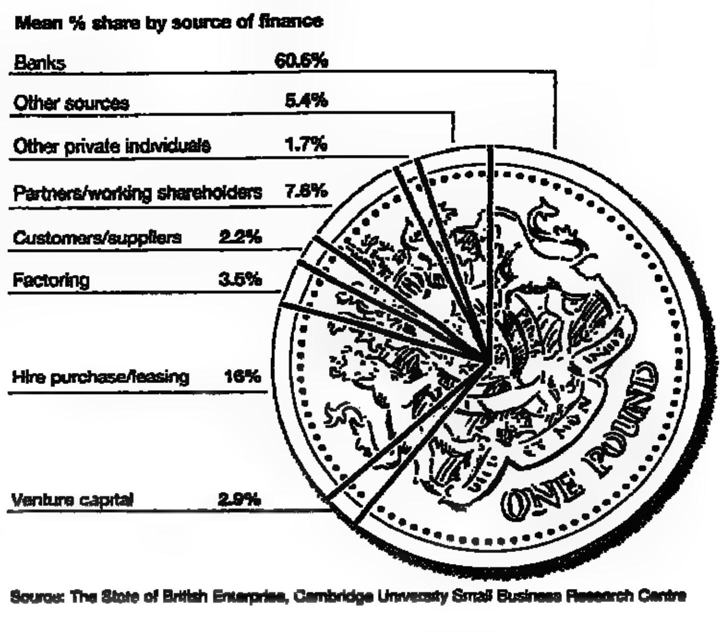
Backers include the banks, notably Midland, large private sector businesses such as Shell, local authorities, enterprise agencies, City livery companies such as the Mercers and organisations such as the Royal British Legion, which helps ex-service people.

Some organisations run a number of schemes for different target companies, such as Northern Enterprise in Newcastle upon Tyne which has two, London Enterprise Agency which has four and Enterprise Lewisham, in south-east London, which has two.

What the directory does not show is how effective soft loans are as a way of helping small firms start or expand, though the researchers have identified weaknesses in the marketing of the loan schemes. Nor, in cases where there are several sponsors for a fund, do they always work smoothly together.

These and other issues are to be the subject of further research. If this demonstrates that soft loan funds are a way of promoting small enterprise then the government may have to rethink its policies, the researchers say.

How UK companies raise finance



Source: The State of British Enterprise, Cambridge University Small Business Research Centre

**A Directory of Soft Loan Schemes for Small Businesses in England. Martina Klett, Small Business Research Centre, Kingston University, Kingston Hill, Surrey KT2 7LB. Tel: 081 547 7247. 59 pages £25 in p&p.*

Innovative approach

Spider Systems, an Edinburgh company which manufactures computer networking equipment, is using an unusual type of grant to develop a new telecommunications product range, writes James Buxton.

It is receiving £250,000 from Lothian and Edinburgh Enterprise Ltd (LEEL), the local enterprise company, and will repay it over three years through royalties on products sold. LEEL says the funding instrument, which it calls a participatory grant, is innovative but does not claim it is unique. It is disbursing a total of £750,000 in participatory grants this year, mainly to high-tech companies for product development.

"We believe product development is crucial to the future of the area," says Geoff Strachan of LEEL, "but companies usually fund it out of profits which have been hit by recession." He says that LEEL has to have close links with the companies to which it provides participatory grants.

LEEL expects to make a rate of return on the grants which is midway between that on a loan (10-15 per cent) and an equity stake (40 per cent).

A cap applies on the value of products sold, above which Spider will not have to make royalty payments. In the event that Spider does not sell any of the products to which the participatory grant applies, it will not have to repay LEEL. Spider will enter the funding in its books as grant, not a loan.

Spider, a 10-year-old company, now has sales of almost £20m and is using the participatory grant to help fund a £1m programme to develop a new range of telecommunications products. It says it is the only European company of its kind in a market dominated by US concerns.

Spider, which employs 250 people in Scotland, Berkshire and abroad, is also receiving a £150,000 grant from the Department of Trade and Industry and will fund the rest of the £1m project from its resources.

Alternative loans

The range of local financing initiatives for small businesses is set to grow if activity in the West Midlands is any guide to a national pattern. Across the region, plans for funds, trusts and banks proliferate, writes Paul Cheeseright.

The emphasis is the provision of loan finance for the business which cannot obtain funds from either its bank or a venture capital company. This is an area where £5,000, not £50,000, may be the bridge between success and failure.

In the Black Country, Walsall Enterprise Agency is close to finalising the details of a £400,000 revolving loan fund, while in central Birmingham, the Aston Commission has produced a business plan for an investment trust based on two companies. One would lend, while the other would guarantee the loans; the longer term hope is the development of a community bank.

In Coventry, the city council is examining the feasibility of an investment trust. In Worcester, David Hallmark, a solicitor and Philip Paxton, divisional manager of Midlands Electricity and a director of the local training and enterprise council, hope to create a local funding partnership to finance a city project. The aim of these initiatives is to foster local economic development rather than to provide handsome returns to shareholders.

There is little desire to vie with established financial institutions. "Our particular initiative," says Pat Conaty, development director of Aston Commission, "is not to compete with the banks but to cope with a funding gap where bank branches have closed." Indeed, the new funds look to the institutions for financial backing. The Aston Commission devised its proposals in co-operation with Co-operative Bank. The Walsall Enterprise Agency's basic funding will come from an unnamed finance house.

The ability to offer loans to companies which do not have the security which the clearing banks demand as a matter of course, is only possible if the scheme organisers have a backing which goes beyond the initial capital funding. Aston Commission studies show that the risk of a small business loan failure is 40 per cent against a six per cent chance of failure on housing loans. Thus the Aston plan depends in part on winning large company support for loan guarantees. And the Walsall scheme, which aims to offer loans at two percentage points under the base rate, hopes to win the backing of City Challenge funds, aimed at urban regeneration.

Easing the reporting burden

The small company audit has been the focus of a great deal of attention in recent months. The government's drive against red tape has given urgency to a long-running discussion of the merits of the small firms audit and the government has proposed exempting businesses with turnover of less than £37,600.

This concentration on the audit has overshadowed the introduction of changes in the reporting requirements for small and medium-sized companies which could also reduce the bureaucratic burden.

A statutory instrument which came into force last November permits for the first time a reduction in the amount of information which has to be presented to shareholders and the outside world.

Statutory instrument (SI) 2452 – full title The Companies Act 1985 (Accounts of Small and Medium-Sized Enterprises and Publication of Accounts in Ecus) Regulations 1992 – came into force seven months ago. Few companies have been aware of it as a reporting option but it is becoming more widely known.

Small and medium-sized companies have been able to file abbreviated accounts (initially called modified accounts) with Companies House since 1981 but they have still been required to provide full accounts to shareholders. Abbreviated accounts had benefits in terms of confidentiality but increased the accounting burden because they were in addition to the full accounts and not a replacement for them.

By contrast, accounts prepared under SI 2452 may replace full accounts and, while the reduction in the reporting requirement is only modest, may represent an attractive option to some companies. So says Ray Mayes, a partner at accountants Buzzacott and author of a new guidebook* to small and medium-sized company accounts.

Accounts prepared under the SI 2452 rules – they have yet to acquire a more convenient label though "exempt accounts" has been suggested – comprise simplified versions of the full directors' report, balance sheet and notes to the accounts.

The directors' report may dispense with about a dozen clauses including those requiring "a fair review of the development of the business", details of changes of asset values and of important post-balance sheet events.

The balance sheet may group items which must be reported separately in the full accounts. Exempt accounts require only that goodwill and "other intangible assets" be reported while full accounts require development costs, patents and other similar rights and goodwill to be reported separately.

Companies making use of the exemptions may also omit notes to the accounts covering taxation provisions, a detailed product and geographical breakdown of turnover and information on directors' earnings.

In addition to easing reporting requirements SI 2452 also raised the thresholds for companies qualifying as small or medium-sized. It increased the turnover limit for "small" from £2m to £2.8m and for "medium" from £8m to £11.2m, letting a further 13,000 companies through the net. Reflecting its origins in a European directive, the new rules also allow accounts to be drawn up in ecus.

Some accountants fear the new rules will merely complicate matters by adding a new reporting level to the existing full and abbreviated accounts. "They will bed down over time but at first sight they only pay lip service to easier reporting," says Alistair Rose, a partner at accountants Coopers & Lybrand. "They will represent a fairly minimal saving in cost and time."

But others welcome them as a first, if modest, reduction in the reporting burden on smaller firms. "A well-managed company would have the information in its management accounts anyway," says Mayes. "But this saves the need to convert them into a form suitable for statutory disclosure."

**Preparing Company Accounts. Practical Guidelines for Small and Medium-Sized Companies. Accountancy Books, PO Box 620, Central Milton Keynes, MK9 2JX. 130 pages. £29.95.*

Charles Batchelor

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PEOPLE

Tibbett and Britten's ambition overseas

Two non-executive directors appointed by Tibbett and Britten illustrate both the distribution and logistics group's continuing relationship with Unilever, and its growing international ambitions.

Michael Johnson, 59, retired as head of information technology for Unilever in January, after 30 years with the Anglo-Dutch consumer products group. For the last three years he was responsible for Unilever's IT policies, designed to take advantage of the capability of open systems.

Ivan Kingston, 60, is currently chairman of Malmgren Golt Kingston, a consultancy which advises government and commerce on international trading policy and related regulatory issues. He has particular expertise in market access in Japan, North America and the EC.

John Harvey, chairman and chief executive of Tibbett & Britten, was a Unilever director before he led the buy-out of his company from Unilever and Van Gend & Loos (the Dutch railways) in 1984. He said: "I have known Michael and Ivan for many years. They each bring wide international and specialist experience to the board, which will prove invaluable as our growth continues."

Since the buy-out, and flotation in 1986, Tibbett and Britten has maintained close links with Unilever. Last year the UK represented more than 90 per cent of Tibbett and Britten's revenue, but by the end of 1993, overseas operations will account for more than 25 per cent of turnover.

Briscoe clears his desk at Midland Global Markets

Simon Briscoe, UK economist at Midland Global Markets, is moving to rival gilt-edged market-maker SG Warburg later this summer. He will join the research team as senior gilt-edged market economist, filling the seat vacated by John Shepperd, who recently moved to Yamaichi Bank.

Briscoe, in his early thirties, moved to Greenwell Montagu Gilt-Edged - now the gilts arm of Midland - from the Treasury where he worked for six years. Much of his time at the Treasury was spent as an economic adviser, focusing specifically on the public sector borrowing requirement.

In the six years that he has been at Greenwell's, Briscoe, a keen socialite and football lover, has become one of the City's best-known commentators on UK government bonds.

So close is the rivalry between Greenwell Montagu and Warburg's that Greenwell's has asked Briscoe to clear his desk at the earliest possible moment. He will take up his post towards the end of August, plugging the hole created by the departure of Shepperd and his junior Nigel Richardson to Yamaichi Bank.

Briscoe's move is just the latest in a general reshuffling of economic commentators in the gilts market. It now falls on Roger Bootle, chief economist at Greenwell's to replace Briscoe.

■ Francis Hazeel has been appointed head of the London representative office of DEPFA-BANK, Germany's largest mortgage bank. He joins from Banque Indosuez.

■ Howard Kenworthy has been appointed md of TIME RETAIL FINANCE, the finance company jointly owned by Kingfisher and Club 24, a subsidiary of Next.

■ Steve Richardson has been appointed md of the newly created central sales and services unit of BARCLAYS BANK.

■ Keith Greenough has been appointed chief executive of MORTGAGE EXPRESS, part of the TSB Group. Tim Dawson, finance director, takes on the additional role of deputy chief executive. David McVeigh, Fionnuala O'Sullivan, Peter Taylor, David Parkins, and Leslie Ross are appointed directors.

■ Charles Jackson and Peter Urquhart join the board of MERCURY ASSET MANAGEMENT.

■ Kenneth Lewis has been appointed a director of the CO-OPERATIVE BANK.

Horne enters his third age with relish

David Horne, who stepped down as chairman of Lloyds Merchant Bank in December, is looking forward to "the great third period of one's life" as he picks up a clutch of non-executive directorships.

Horne, 61, is joining the board of Serif, the security and specialist commercial printer which once distributed the board game Trivial Pursuits, and office furniture and leasing group Black Arrow. "I am more interested in smaller companies where I might have something to add" he remarks. He is a director of consulting engineer Waterman Partnership, and thinks he has time for a fourth position.

During his time at Lloyds, Horne was involved in three high-profile ventures - advising the unsuccessful European consortium during the Westland affair, as well as Lloyds' failed bids for Standard Chartered and Midland.

He also became acquainted with Serif, which the bank advised during its reversal into Cowells.

Alongside Horne, Serif is adding another non-executive director to advise on its expanding security printing operations. He is Richard Harrison, 56, who is vice chairman of PIRA International, a research organisation for the printing, publishing and packaging industries.

It is also a corporate finance connection that binds Horne to Black Arrow; when at Williams & Glyn's earlier in his career, he advised the company which reversed into Blanes in 1974. He joins as the third non-executive, and the first to be appointed in twenty years.

Horne will on familiar territory. Not only is Derek Moore, one of the other non-executives, a former Williams & Glyn's man himself, but the board also shares a strong interest in golf. Horne has captained St George's Hill, deputy chairman Maurice Edward Coombe Hill and Moore, The Dyke in Sussex.

Mitchell moves out to join the Dowty diaspora

Triplex Lloyd, the West Midlands engineer which has been reshaping its top management since the sudden death of chairman and chief executive Jim Dael last summer, has recruited Bob Mitchell from Dowty Aerospace as its new finance director. John Foley, the former finance director who was appointed group managing director in December has been fulfilling both roles since then.

Mitchell, 40, who joined Dowty in November 1989, has stayed on as finance director of Dowty Aerospace after the takeover by TI. His boss Bruce Ralph, chief executive of Dowty until the acquisition, is now chief executive of Glynwed International.

"We were looking for international experience" says Foley, 36, who points out that there are, moreover, useful similarities - in terms of size and length of negotiations - between drawing up power generation and aerospace contracts.

At the same time, Triplex's overall business is shifting towards the high-tech end of the castings business, an area in which Mitchell, with his aerospace background, should again feel at home.

He moves, however, to a smaller operation; turnover at Triplex Lloyd is around £180m compared with £300m at Dowty Aerospace.

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ARTS

To the historian, of art or whatever, no subject could be more fascinating in its tragic complexity than that of France and the French through the 1940s, the years of the Second World War and its immediate aftermath, of the Nazi Occupation and the Vichy State, of collaboration, resistance and liberation, and of the upheavals and horrors of the *épuration*, the retribution and reconstruction that followed. In any Paris bookshop today, 50 years on, the flood of new material and analysis to be found demonstrates that the collective national conscience is still mightily exercised, and is only now coming to terms with those awful times.

The arts have their place in this process. Paris had been the natural intellectual and creative centre of Europe since the Revolution. Here, to the *avant-garde*, was where all that was new, in thought and practice alike, found its true home. It was a symbolic and emotional position made all the more poignant by physical isolation during the War. And after the War, it seemed, here was the promised land, the Paris of Picasso and Léger, of Giacometti and Dubuffet, of Sartre and Camus, of Cocteau and Malraux.

Living largely on its past it may have been, but so Paris continued at least until the late 1950s in what it still saw as its natural and rightful position, centre stage. Certainly Paris was central to any British engagement with the avant-garde in those years. But such has been the rewriting of art history since the 1960s that today we would hardly think so. The emergent influence of America, and of New York especially, was undeniable, but at least for a time yet the creative equivalence and mutual exchange between the new world and the old were assumed. Indeed it was magnificently acknowledged even so late as 1964, in the Gulbenkian survey at the Tate of *The Painting & Sculpture of a Decade: 1954-64*.

Today, leaving aside such individual reputations as Giacometti or Dubuffet, the more general creative enterprise of those years is all but forgotten; seen, if at all, in the light of subsequent American achievement, as poor, minor, irrelevant stuff. Wols, Fautrier or Bram van Velde to set beside Pollock or Rothko; Hélion beside Warhol or *Lichtenstein; Gruber beside Fischl;* Artaud beside Schnabel, Basquiat or Clemente? You must be joking.

In this respect, in bringing into the light the work of 11 artists active in Paris in that period, *Paris Post War* at the Tate is only to be welcomed. Each artist is given a distinct space and a clear showing in proper strength. Picasso we may take as read, and indeed his presence here is more token than substantial, and rightly so, for he could

Detail from Francis Gruber's 'Job', 1944

Post War expectations

William Packer reviews the exhibition at the Tate

too easily have taken over. His presence in Paris throughout the War remains ambiguous, largely undocumented and unexplained. He emerges at the Liberation, declares himself communist and takes on, if only nominally, the leading public role in the purging of the community of artists. He was always a special case.

For the rest, the attentuated, distressed, existentialist figures of Giacometti are familiar, as too is the *art brut* of Dubuffet, though his dense grounds, scored and layered and inscribed, graffiti-like, with mannikin idiograms of a knowing, primitive innocence, grow ever more unshocking and seductive.

Antonin Artaud, who died in 1948 at 54, is the great rediscovery, with his *dessins-écrits* and, most especially, his portrait drawings, close, desperate, expressionist images of the head alone. If history comes round the second time as farce, so art comes round again as mere style and decoration. Artaud's sophisticated psychological intensity only confirms the essential triviality of the graffiti art of recent years, and the work of such heroes as Basquiat, Schnabel, who made direct visual quotation of Artaud, and Clemente.

Francis Gruber, too, more than deserves his revival. He died at 36 in 1948, and the work here actually dates from the War itself, which he spent in Paris. His is a bleak, uncompromising vision of the human condition, his figures scrawny, the setting barely furnished, the realisation harsh and awkward. But interesting as his work is for itself – and we may as well be speaking of the assured abstraction of van Velde, or the stylised simplicity of Hélion's nudes – the lack of a fuller context is all too soon apparent.

In short we have an exhibition interesting enough in itself, but one in which the sum is somewhat less than its parts. Here are eleven reputations usefully re-examined, but where are the rest? If Picasso, why not Léger, Braque, Matisse, Bonnard; if Gruber, why not Balthus and Buffet; if van Velde, why not Manessier and Soulages? This is no plea for an exhaustive review, after the fashion of the Barbican's excellent *Aftermath* of 1982, but rather for something a little fuller and more comparative. The exhibition, by its title, raises expectations that in the event it does not try to fulfill. It is opportunity missed.

Paris Post War: Art and Existentialism 1945-55. The Tate Gallery, Millbank SW1, until September 5: sponsored by The Independent, with support from the Association Française d'Action Artistique, the Cultural Service of the French Embassy and Visiting Arts

Theatre out of London

The Venetian Twins

"The Italian Molière": so Voltaire called Carlo Goldoni. Like Molière, Goldoni often relied on *commedia dell'arte* formulae for his plots. The Venetian twins of this play, Zanetto and Tonino, sundered for yonks, with contrasting manners but identical looks, happen to arrive in Verona at the same time and keep bumping into each other's acquaintances and fiancées, with predictably chaotic results. Sounds familiar? Yes, Goldoni's guys from Venice might often be Shakespeare's boys from Syracuse – if plot were all.

But nobody would have compared Goldoni with Molière if all he had done was to follow a formula. He knew how to rejuvenate a comic recipe with humanity, satire and emotional truth. Last year, when Giorgio Strehler's staging of Goldoni's *Le Baruffe chiozzotte* visited the National Theatre, Londoners saw a classic demonstration of how deep his comedy runs.

Michael Bogdanov's new RSC staging of Ranjit Bolt's new version of the play is, as Clement Crisp would say, very other. Costumes and language veer between 18th and 20th centuries, and between Italy and England. And Bogdanov inflates chunks of it into British pantomime horseplay – to the extent of stepping out of character. All this reaches its most far-fetched early on, when an orchestrated sword-fight grows so over the top that the actors wound a member of the audience: imagine the fuss. Not only the police arrive to see what's up, but also (on press night, at any rate) David Calder, the RSC's new Shylock, from the theatre next door. What a riot! Guffaw, scream, cackle.

But Goldoni (remember Goldoni, boys?) was so much the master of his medium that he could cloak the sun and turn a comedy dark with sudden death. When this happens near the end of *The Venetian Twins*, the RSC audience cannot help realising how much more integrity this play has than Bogdanov's staging allows. (I speak as one who had guffawed too.)

The play's most virtuoso touch is that one actor plays both twins. David Troughton plays Zanetto/Tonino with conquering panache – though you cannot believe that this Zanetto is used to riches, and he (like Bolt's text) overdoes Zanetto's stupidity. As the fop Lelio, Guy Henry shows us again what a sublime comic character actor he is. With minimum effort, he manages to be, at the same time, verbose, effete, pompous, lugubrious, hilarious, and vulnerable; and he can be funny just by blinking. But we already knew this much; he is in danger of dwindling into an "act" instead of growing as an actor. He needs directors more subtle than Bogdanov.

Most of the rest are just energetic cardboard and paste. Sarah Woodward is a two-dimensional Rosaura, Jenny Quayle a one-dimensional Beatrice (neither funny nor serious), Siân Radinger a coarse Colombina, Jonathan Philips an overwrought Florindo (and will someone confiscate his eyeliner?). Even Robin Soan, recently so exemplary in *Three Birds Alighting on a Field*, lets the Doctor become a crusty stereotype.

Some music by Terry Malcolm introduces, interrupts and sometimes accompanies the action. Conflating isolated lines from Verdi, Sullivan, and "O sole mio", it is played with cheerful ghastliness by the town band from Inferno-atte-Po. Ho ho but not all evening ho.

Alastair Macaulay

In repertory at the Swan Theatre, Stratford-upon-Avon

'Volpone' in Birmingham

By some strange fluke, there is a rush of Venetian premieres in the Midlands this week: new productions of Jonson's *Volpone* at the Birmingham Rep, and at Stratford-upon-Avon of Shakespeare's *Merchant of Venice* and Goldoni's *The Venetian Twins*. (Even Matthew Hart's new work for Birmingham Royal Ballet featured Venetian blinds.) In several ways, Bill Alexander's *Volpone* staging is a sequel to the *Othello* with which, in March, he launched his new Birmingham Rep regime. And where does Act One of *Othello* take place? Venice, city of intrigue.

As long as you cut it judiciously, *Volpone* is a remarkably playable comedy, and it adapts well to different stagings. This *Volpone* is as fine a production as Nicholas Hytner's 1990 staging at the Almeida in London. Where Hytner evoked the intimacy of Venice by having water swishing around the perimeters of the small stage area, this one evokes the city's scale, with an arching bridge looming high above the Rep's large stage. The designer, Kit Surrey, has taken his basic *Othello* set – huge tiles lining floor and walls – and dyed it brown and gold.

This production's skill lies in contrasting public and private scenes, in telling the story with robust vitality, and in giving surprising comic emphasis to several supporting characters. Corvino (Jamie Newall), whose grossly misogynistic treatment of his wife Celia can be so disturbing, is here a *comic* monster. The scenes involving Sir Politic Would-be and his wife (all omitted by Hytner) are here made hilarious . .

Everything is so lucid and onward-moving that it hardly matters that several central roles are miscast. Or that Alexander has cut not only such songs as Jonson's Catullus translation "Come, my Celia, let us prove" but also Volpone's three special minions – his dwarf, hermaphrodite and eunuch (in Hytner's staging a crucial symptom of Volpone's wealthy corruption). Or that Alexander and Surrey somewhat diminish the play by locating it (like Jonathan Miller's *Merchant of Venice*) at the turn of the last century, with café society, boaters, and frock coats.

Bernard Horsfall, though urbane and amusing as the still hub of the action, is a Volpone/fox neither cunning nor predatory. He lacks the acid for such remarks as "women and men of every sex," and he is too obviously the passive dupe of the parasite fly, Mosca. In which role Gerard Murphy is not just wrong – impossible to imagine him either buzzing or flying – but also over-indulges all his worst hark-at-me mannerisms: the odd back-of-the-mouth tone formation; the unspontaneous delivery of even so simple a line as "Do so". By contrast, Andrea Mason's Celia is coarse and under-refined, her elocution as weak as her maquillage is strong.

Yet these and other flaws hang light in the scales. I loved the detailed ensemble playing in the big trial scene, the sense of Venetian open-air chat, the vivid sweep of the whole satire. As in *Othello*, 20 extras help to swell the big scenes. And Alexander's decision to bring the front of the Rep stage right forward beyond the proscenium arch continues to pay dividends. Stagings now project here so surely that I relish the whole balance of steep auditorium and deep stage. In three months Alexander has made the Rep, whose acoustic I used to dread, into a theatre I look forward to revisiting.

A.M.

Birmingham Rep until June 26

Ballet/Clement Crisp

Mikhail Baryshnikov

The saddest words in ballet are "But you should have seen him (or her) when..." When the muscles were resilient, the style uncorrupted, the dance fresh. On Saturday night Mikhail Baryshnikov danced at Sadler's Wells with his White Oaks Project, on the second evening of a two-day visit, and ah! you should have seen him then. At an age – he is in his 46th year – when most male dancers have retired, or should have retired, Baryshnikov is dancing with sublimest grace, artistry, physical resource. He has, for several years, eschewed the classic repertory which he illuminated permanently for us with his physical genius. Instead, he has found and inspired roles – notably from Twyla Tharp and Mark Morris – which examine his still dazzling prowess. And he remains what he was when we first saw him in the Kirov season of 1970, a uniquely gifted and uniquely satisfying dancer.

In this White Oaks programme he danced Mark Morris's *Three Preludes*, a solo set to Gershwin's piano studies; Twyla Tharp's *Pergolesi*, an extended and bravura exercise using six movements from Pergolesi string concerti; and he was a member of the ensemble in Morris's *Mosaic and United*, which realises two string quartets by Henry Cowell. The programme was completed by Hanya Holm's gruesome *Jocose*, in which the other White Oaks dancers were called upon to be oh-so-roguish. to the Ravel violin sonata. Someone had better get the sonata to a dry cleaner quickly: such choreography is dangerous.

A distinguishing quality of Baryshnikov's dancing has ever been its clarity. The classicist's ideal of movement pure, sharply-drawn and impeccably shaped, is always realised in his art. This was what Leningrad training brought to a God-given physical instrument. And this is still a glorious constant of his art, allied to that other, and intensely personal, *gift of seamless, huge-spanned* phrasing. We see the dance as an essence, unalloyed and potent, set in long lines of beautiful and subtly-conceived activity. Baryshnikov *now* is, miraculously, Baryshnikov *then*.

In *Three Preludes* (in black trousers and top; white socks, vest, gloves) Mark Morris sets him exploring Gershwin's relaxed and jazzy writing. Baryshnikov is insouciantly brilliant, deep inside the syncopations, playing with rhythm, phenomenally exact in line and accent. He takes on the shape of the music – and of its historical period. In *Pergolesi*, Twyla Tharp offers a culmination of her long association with Baryshnikov's dancing, which dates back to *Push Comes to Shove* in 1976, and encompasses such varied pieces as *The Little Ballet* and *Sinatra Songs*. Baryshnikov, in white, dances tirelessly in a sequence of numbers that show him, as always in Tharp choreography, riding on waves of energy and *rhythm, cutting classic steps into* fresh and off-beat shapes, whipping into a movement and suddenly holding it in suspension. Mercurial in its physical aspects, light in touch as in execution, the piece is by turns mocking – Baryshnikov sends up with sharpest wit his own repertory, Giselle's wilis, Nijinsky's roles – and shot with intense feeling. It is *about* Baryshnikov in several ways – as virtuoso, as repository of a great tradition, as balletic icon. It is a magnificent study, sublimely danced by an artist whose greatness we recognised when we saw him dance Jacobson's *Vestris* solo in 1970 – and in an odd way *Pergolesi* recalls that earlier exercise, too – and whose greatness is undiminished, and even more rewarding, today.

Mark Morris's *Mosaic and Untitled* is new this year, and very fine. Henry Cowell's string quartets are mysterious, introspective music, haunted by glissandi and shimmering sonorities, with dark shifts of mood. Morris fleshes them out with movement no less questioning, because firmly rooted in the scores. Baryshnikov and the White Oaks troupe are caught up in unex*plained meetings, secrets, and a* stunningly clever burst of fake folk dance (clearly dictated by Cowell's writing). It is a stimulating work – like a Paul Klee come to life – and is admirably danced. Baryshnikov and White Oaks must return soon.

Intractable 'Carrington'

In January 1932, Lytton Strachey declared "If this is dying, then I don't think much of it." Seven weeks after he died his companion Dora Carrington (b. 1893) killed herself. Now, Jane Beeson's play *Carrington* at the Minerva Studio, Chichester tells the story of this overlooked and intense artist whose life represents the easy privilege and the hard radicalism of Bloomsbury in the 1920s.

Beeson has chosen a fine but intractable subject. *Carrington* lacks structure and shape. The play charts a Lyttony of ambidextrous goings on between Strachey, Carrington, the artist Mark Gertler, Lady Ottoline Morrell and the Woolfs. *Carrington evolved a sexual* identity worked out between the coolly homosexual Strachey and the hotly heterosexual Gertler. What emerges is a picture of her studies at the Slade through to her troubled *ménage à trois* with Strachey and her husband, Ralph Partridge, whom she married in May 1921 in order to stay close to Strachey.

Beyond this circle the Bloomsburies hover *en masse*: Bell, Fry, the Sitwells, Nicolson and Sackville-West, Maynard Keynes, even the Lawrences. It was contact with the wider intellectual community which redeemed Carrington's life from indulgence and self-absorption. But she left, with a few dozen perfectionist paintings, a sense of talent wasted in depression and energies squandered in indecision.

As matter for a play, Carrington's life presents few dramatic possibilities. The subject is difficult, and where the action fails to convey the *complexities, the caricatures fare* best: Virginia Woolf (played by Lucinda Curtis) is languid and vicious, while Ottoline Morrell (Dawn Keeler) keeps lubriciously hearty: both are most themselves. Woolf says vatically, "Carrington grows older and her doings are of a sort that age"; while Ottoline chirrups "Tomorrow, my darling, I'll take you to the asparagus beds – we'll talk there."

Strachey (Robert Pickavance) is all flutter and fascination, quick with *bon mot* and willowy opinion. Carrington herself (Toyah Willcox), inhabits the spaces between the other characters, rather as she did in life. Willcox plays her nervily, tugging at her dress, romping around the open set, scratching at a charcoal sketch. But little in Annie Castledine's direction explains the absorbing and singular passion that Carrington felt for Strachey. She wrote: "Strachey was the only per*son to whom I never needed to lie,* because he never expected me to be anything different to what I was."

Andrew St George

Minerva Theatre, Chichester

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Muziektheater Tonight, Fri, Sun afternoon: Simon Rattle conducts Peter Sellars' Holland Festival production of Pelléas et Mélisande, with Philip Langridge, Elise Ross and Willard White. Repeated June 16, 18, 20, 23 (625 5455)
Concertgebouw Tonight, Thurs, Fri, Sun afternoon: Hubert Soudant conducts Netherlands Philharmonic Orchestra in Schumann and Bruckner, with piano soloist Christian Zacharias. Tomorrow: Wolfgang Sawallisch conducts Royal Concertgebouw Orchestra and Chorus in Beethoven's Missa Solemnis. Sat: Sawallisch conducts Beethoven symphonies (24-hour information service 675 4411, ticket reservations 671 8345)
Beurs van Berlage Thurs, Fri, Sat, Sun Mon: experimental Belgian choreographer Anne Teresa de Keersmaeker opens a season running till June 27. Sat (Wang Zaal): Schoenberg Ensemble plays new works by Gubaidulina and Gorecki (627 0466)
Stadsschouwburg Thurs, Fri, Sat: Piccolo Teatro di Milano in Strehler production of Goldoni's Le Baruffe Chiozotte.
Next week: Deutsches Theater Berlin in plays by Ibsen and Kleist (320 2500)

ANTWERP

ANTWERP 93
The drama programme includes an adaptation of Chekhov's Three Sisters by Wooster Group, daily from tomorrow till Sun at deSingel, and Ivo van Hove's arrangement of Shakespeare's Hamlet, opening at Bourla on Sat and running daily except Mon till June 19.
The sacred music programme at St Augustinus continues with late evening performances of Gesualdo's Responsoria by Hilliard Ensemble from Thurs to Sat, and a performance next Mon of Lassus' Lagrime di San Pietro, with Ensemble Vocal Europeén conducted by Philippe Herreweghe (226 9300)
FLANDERS OPERA
The final production of the season is Manon Lescaut staged by Robert Carsen and conducted by Evelino Pido, with Miriam Gauci and Fabio Armiliato.
First night Fri, six further performances till July 2 (233 6685)

BRUSSELS

Kurt Horres' production of Die Meistersinger von Numberg conducted by Antonio Pappano, is revived tonight at the Monnaie, with José van Dam as Hans Sachs, Dale Duesing as Beckmesser and Margaret Jane Wray as Eva. Repeated June 11, 13, 16, 19, 22, 24, 27, 29. June 12: Gösta Winbergh song recital (219 6341)

CHICAGO

RAVINIA FESTIVAL This year's festival opens on Fri with a week of jazz concerts, featuring Gerry Mulligan Quartet and Wynton Marsalis Septet, Arturo Sandoval, Shirley Horn, Joe Henderson, Betty Carter, Stephane Grappelli and Oscar Peterson. The Chicago Symphony's first concert is on June 25. The festival runs till early September (Ravinia Festival, P.O.Box 896, Highland Park, IL 60035. Tel 312-728 4642 Fax 708-433 4582)

GENEVA

Armin Jordan conducts a revival of Nicholas Hytner's production of Le nozze di Figaro at **Grand Théâtre** opening on Sun for a run of seven performances, with William Shimell, Reneé Fleming, Ferruccio Furlanetto and Marie McLaughlin (311 2311). Krystian Zimerman gives a piano recital next Mon at Victoria Hall (310 6611). Paul Claudel's 1893 play L'Echange runs daily till Sat at the **Comédie** (320 5001)

UTRECHT

Vredenburg Tonight: Gunther Schuller conducts Ebony Band in works by Graettinger, Rugolo and Marks. Sat: Hubert Soudant conducts Netherlands Philharmonic Orchestra in Schumann and Bruckner, with piano soloist Christian Zacharias.
Sun: Janos Furst conducts Radio Philharmonic Orchestra and Chorus in Schoenberg and Bartok (314544)

VIENNA

Staatsoper Tonight and Sun: Elektra with Eva Marton and Brigitte Fassbaender.
Tomorrow and Sat: La boheme with Carreras. Thurs: Queen of Spades. Fri: Das Rheingold. Next Mon: Die Walküre with Hildegard Behrens, Waltraud Meier, Placido Domingo and Robert Hale (51444 2955)
Konzerthaus Tomorrow: Marjana Lipovsek song recital. Thurs: Carlo Maria Giulini conducts Vienna Philharmonic Orchestra in symphonies by Franck and Brahms. Fri: Hagen Quartet.
Sat: Michael Gielen conducts Austrian Radio Symphony Orchestra in Stravinsky, Schoenberg and Ravel. Sun morning: Gidon Kremer, Heinrich Schiff and friends.
Sun evening: Andras Schiff piano recital. Next Mon and Tues: Kurt Masur conducts Leipzig Gewandhaus Orchestra (712 1211)
Musikverein Thurs: Peter Marschik conducts Slovak Radio Orchestra and Vienna Boys' Choir in Bach and Stravinsky. Sat afternoon, Sun morning: Giulini conducts Vienna Philharmonic in repeat of Konzerthaus programme (505 8190)
Odeon Tonight, tomorrow, Thurs: National Theatre of Craiova, Romania, presents Phaedra, Silviu Purcarete's adaptation of Seneca and Euripides (214 5562)
Messepalast Tomorrow till Mon: French-language production of John Gabriel Borkman directed by Luc Bondy (526 1426)
Volkstheater Fri: first night of Nick Broadhurst's Vienna Festival production of Offenbach's La belle Hélène (932776)

WASHINGTON

MUSIC
New York City Opera presents Carmen tomorrow and Fri, and La boheme on Thurs and Sat, at **Filene Center** (703-218 6500). David Zinman conducts Verdi's Requiem on Thurs and Fri at Baltimore's Joseph Meyerhoff Symphony Hall, with soloists including Ben Heppner and Florence Quivar (410-783 8000). Andrea Marcovicci, best known for her sultry voice and modern interpretations of Jerome Kern, is guest artist at Center Stage on Fri and Sat (410-332 0033)
THEATRE
● Much Ado About Nothing: free outdoor performances of Shakespeare's romantic comedy till June 20.
Tickets can be picked up at Shakespeare Theater, Washington Post or Carter Barron (Carter Barron Amphitheater 202-393 2700)
● The Tempest: a Washington Shakespeare Theater production. Till June 26.
(Gunston Arts Center, Arlington 703-739 9886)
● The World Goes Round: musical celebration of the careers of composer John Kander and lyricist Fred Ebb.
Till June 27 (Kennedy Center 202-467 4600)
● Five Guys Named Moe: jazz and dance celebration of Louis Jordan's songs of the 1940s. Till June 20
(Ford's Theater 202-347 4833)
● Criminals in Love: mad-cap comedy by Canadian playwright George Walker. Till June 20 (Round House Theater 301-217 3300)

ZURICH

JAPAN IN ZURICH
Tonhalle Tonight, tomorrow, Thurs: Kazuyoshi Akiyama conducts Tonhalle Orchestra in works by Lourié, Glass and Paganini, with violin soloist Gidon Kremer. Fri: Shura Cherkassky piano recital. Sat: Daniel Schweizer conducts Zurich Symphony Orchestra in Beethoven, Endo and Takemitsu, with piano soloist Michiko Tsuda (261 1600)
Kanzleischulhaus Fri: first of ten performances by Fumi Matsuda Dance Theatre (221 2283)
Schauspielhaus Fri, Sat, Sun: Kinzo Komparu Noh Theatre (221 2283)
● Yukio Ninagawa's Japanese version of Euripides' Medea comes to Theater 11 from June 16 to 21. Booking and information at Billettzentrale am Werdmühleplatz (221 2283)
OPERA
Tomorrow: La boheme with Mara Zampieri. Thurs: Bernd Bienert's production of Nutcracker. Fri: Tosca with Zampieri and Neil Shicoff. Sat: final performance this season of Nikolaus Lehnhoff's new production of Don Carlo, with Francisco Araiza and Ruggero Raimondi. Sun: Rafael Frühbeck de Burgos conducts first night of Cesare Lievi's new production of Ariadne auf Naxos, with Gabriela Benackova, Edita Gruberova, Josef Protschka and Hermann Prey (repeated June 15, 19, 23, 25, 29, July 2). Mon: Sandor Vegh conducts orchestral works by Mozart and Salieri (Opernhaus 262 0909)

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Super Channel: Financial Times Reports 0630
Wednesday Super Channel: *Financial Times* Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: *Financial* Times Reports 1330; 2030

Arts Guide
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandanavia.
Thursday: *Italy*, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

Losing lots of layers

John Gapper on the reshaping of NatWest's bureaucracy

Mr Derek Wanless looks remarkably fresh-faced for a man in charge of a bank, given the unpopularity of the industry. A little over a year after becoming the youngest chief executive of a high street bank, he appears to have weathered the stream of criticism of UK banking with undiminished good cheer and optimism.

Mr Wanless, 45, has been an employee of National Westminster Bank since graduating from Cambridge. He might be expected to display more irritation over attacks on banks for offences as diverse as mixing up credit card charges, increasing fees to customers, and limiting loans to small businesses.

But Mr Wanless has his reasons to remain chirpy, as he made clear yesterday in an interview on the changes he has brought about at Britain's second-biggest bank. While NatWest has had its share of criticism from customers – and even staff – it has recently avoided much of the opprobrium over management quality directed by shareholders at its old rival, Barclays.

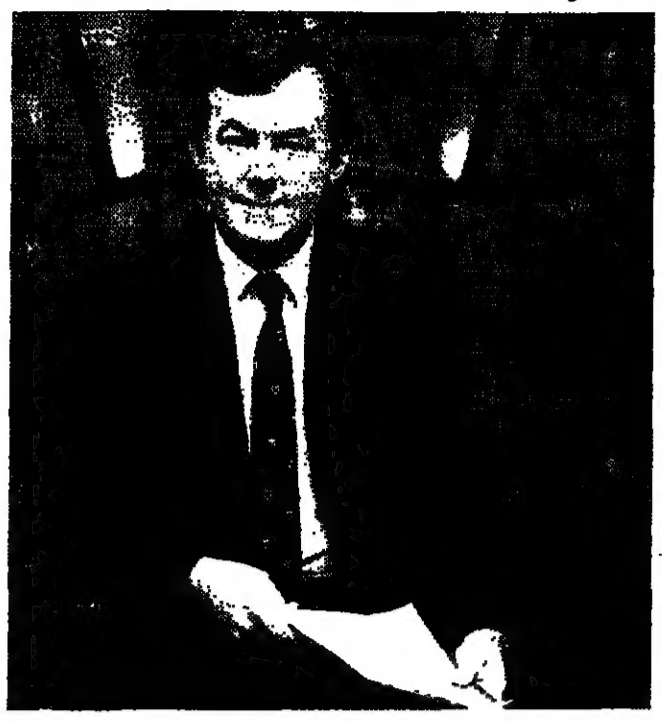
While Barclays has failed to convince shareholders that it has made a clean break with the lending mistakes of the 1980s, NatWest has acted more convincingly, by installing a largely new and young management team under Mr Wanless.

Mr Wanless has thus been able to conduct management reforms in an atmosphere of relative calm. He emerged as chief executive after Mr Tom Frost stepped aside in March last year to concentrate on his defence to unfounded accusations of deception during a government inquiry into NatWest's part in a rights issue from the Blue Arrow employment group.

Mr Wanless demurs at the suggestion that the Blue Arrow affair was a blessing in disguise in allowing NatWest to reshuffle senior management. "I'm the wrong person to ask," he says, in what remains a distinct north-eastern accent. "But I find it very hard to think that what we went through for all those years was worth it."

Some of the new generation have come from outside. Mr Richard Goeltz, the chief financial officer and an American, joined last year from Seagram, the US drinks group. Mr Stuart Chandler, in charge of strategic development, came from the Bank of England.

Mr Wanless has won respect in the industry, both because of his intellectual pedigree – he has a first-class degree in mathematics – and because he appears to understand most parts of what is a complex business.



Derek Wanless: reasons to remain chirpy

High street banks are not easy institutions to change quickly. "When I first came I had not seen so many layers of bureaucracy since I read Milton's Paradise Lost," says one senior manager. "There were archangels and angels, and seraphim and cherubim everywhere I looked."

The bank's entrenched conservatism is one reason why Mr Wanless argues that it would be counter-productive to impose changes too rapidly for staff to understand and assimilate. "Most of the things we are trying are intended to improve service, but there is a danger that in putting those things into practice, you have exactly the opposite effect," he says.

This caution means that, although NatWest under Mr Wanless has displayed willingness to cut its vast array of businesses – shedding retail banking in France, Japanese domestic equity operations and US credit card merchandising in the US – some doubt remains about whether the bank is willing to take the most painful decisions, such as disposing of larger operations, if they prove necessary.

Technological innovations in retail banking, including telephone banking, raise questions about whether banks such as NatWest will be able to reduce costs quickly enough to avoid being undercut by new forms of competition. Even the 7,000 job losses last year, and the 4,000 expected this year might not be radical enough.

Mr Wanless rejects the suggestion that NatWest is too cautious to change at the speed required. "There is no limit to the size of decision we would be prepared to make were it right for the bank," he says. As evidence, he points to the recent flow of divestments in markets where it does not have "a substantial enough starting point from which to develop".

The most important change has been is to reduce the size of the management group to which the bank's four main businesses report. These operations – UK branch banking, international business, US branch banking, and the NatWest Markets investment bank – are monitored by a head office staff that has been cut from 400 to 150, excluding staff in obligatory roles such as auditing.

This group is split into three functions: Mr Chandler's human resources and strategic development; Mr Goeltz's performance management; and a group risk function under Mr John Melbourn. The idea is to enable the bank to have a clearer view of what businesses it should be involved and how these should be operated.

Mr Goeltz has been working on new performance measures to avoid a repetition of past mistakes. Part of this involves developing what Mr Wanless calls "measures of long-term health" of NatWest's various operations. These measures include asset quality, unit costs, customer satisfaction and staff motivation.

While some of these are "soft" measures, others such as asset quality will be reflected directly in the profit and loss account in future years. Mr Wanless says unit costs are particularly important because they indicate the strength of the bank's defences against competitors which use technology to undercut its higher-cost operations on price.

Yet he also thinks these measures will prevent the bank from adopting a short-term view, for example by cutting costs in ways that damage service and demoralise staff. The question is whether such a broad view of performance will deliver the sustained increase in returns on capital which all banks are now seeking.

The alternative might be a gradual break-up of operations within the old unwieldy bank which Mr Wanless wants to slim down rather than divide. NatWest's chief executive thinks his bank can achieve results in line with companies in other sectors – given the reforms and greater economic stability.

Lloyds Bank, recently the most successful clearing bank, has made its mark by emphasising shareholder value. But Mr Wanless says NatWest needs to please staff and customers too.

"It is too easy to say that in the long run all these things go together, but there is a considerable element of truth to it, especially in a service industry," he says.

Joe Rogaly

The Tories can rely on Labour

Mr John Smith has a choice. He can let a taxi-cabful of trade union bosses run the Labour party, or he can try to run it himself.

It is not much of a choice. If he caves in to Mr John Edmonds, the general secretary of the GMB union, he might as well give up politics and retire to compose a guide to hill-climbing in the Highlands. If he fights for his party's independence he may lose anyway. The short-term winner can only be Mr Paddy Ashdown, the leader of the Liberal Democrats. The long-term beneficiary is likely to be the Conservative leader, whoever he or she may be at the time.

Yes, the plot does have a familiar ring to it. The GMB voted yesterday to oppose the exclusion of trade unions from the selection of Labour's parliamentary candidates. Several unions also plan to retain their 40 per cent share of the vote for the party's leader and deputy leader. Mr Smith wants participation in the Labour party's procedures to be limited to members of the party. Mr Edmonds will have none of that. He refers to what he calls *two* groups of Labour members – the 200,000 individuals who pay by direct subscription, and the 4m. who pay a "political levy" through their trade unions. "We believe that everyone who contributes should have the right to participate," he said.

It sounds as reasonable as it is wrong-headed. So does the compromise offered to Mr Smith by the National Union of Public Employees' conference yesterday. Under this deceptive formula, Nupe's political levy-payers could declare themselves supporters of Labour and no other party, thus becoming "registered" members. Like Mr Edmonds' rationalisations, this is a sham. Votes delivered by union machines to the party headquarters are not true democratic votes. They never can be. Somewhere along the line apparatchiks control them. The unions' inability or unwillingness to perceive this will be the death of the party they founded and still finance. "Apparently some Labour politicians think we are an electoral liability," Mr Edmonds said yesterday. He can say that again. Labour will not win another election if people think that they are electing puppets. The ineffably reasonable Mr Edmonds is demonstrating that he aspires to be a puppet master, first, last and always. He will do his best to retain control.

Labour will not be elected if people think they are electing puppets. Mr Edmonds shows he aspires to be a puppet master

If Mr Smith persists, Mr Edmonds will be able to demonstrate his power. He can deploy a negative "block vote" of some 650,000 GMB members at Labour's conference in October. His fellow-bosses from the Transport and General Workers' Union, Nupe, the MSF union and others can throw in veto cards with a combined value of 2m-plus. End of story. A few general secretaries can thus publicly and unashamedly block reform in a manner that would turn the Russian parliament's speaker, Mr Ruslan Khasbulatov, puce with envy.

This is not the end of Mr Smith's troubles. As he is discovering, the Labour movement can always be relied upon – by the Tories. Whenever the trade unions' party is doing well, a bogey-man comes along to act as a vote-repellent. Once it was Mr Tony Benn; another time it was Mr Ken Livingstone; for a while it was Mr Arthur Scargill. The latest aspirant for this historic post, which is surely nurtured by Conservative Central office, is Mr John Prescott, Labour's spokesman on transport. He was trounced when he put himself forward as a candidate for deputy leader, but he has learned nothing. Now he has emerged as the dummy on Mr Edmonds' knee, his wooden crescendos reverberating in public as he insults the team of "modernisers" around Mr Smith.

This little drama must be of some comfort to Mr John Major. The prime minister is in a spot of bother himself, but he can console himself with the thought that it is better to have governed and lost than never to have governed at all. Whether he stays or goes, he will have won a general election and made his mark. The Labour leader has no such consolation to rely on. If, as seems possible, Mr Smith is brought down by Mr Edmonds, he will never have experienced the delights of sitting in No 10 Downing Street and enduring the vilification of the media and the electorate.

Only Mr Ashdown can smile at what is happening. He has much to gain, and nothing to lose. The leader of the Liberal Democrats may indulge himself in fantasies about becoming prime minister, but he is not likely to perish of disappointment if he fails to achieve what most people believe to be impossible. After all, under-secretary of state for Wales in a Labour-led coalition is still further than he can realistically hope to get.

Yet today he is enjoying a fine run, which may become prolonged. Only four years ago he stood amid the ruins of the former Liberal and Social Democratic alliance, a symbol, some said, of the end of third-party politics in Britain. Now the Liberal Democrats can fairly claim the support of perhaps a quarter of the voters. Mr Ashdown commands an advancing army of local authority councillors. He can look forward to further triumphs in the south west of England. His party's recent victory at Newbury cost Mr Norman Lamont the chancellorship; its possible forthcoming win at Christchurch could cost Mr Major his premiership.

It will be seen at once that these excursions into the land of power are likely to be short-lived. The Liberal Democrats are prospering because the government is regarded as incompetent and Labour remains unmodernised. To be fair, Mr Ashdown has added to his party's strength by taking unequivocal positions on matters such as the Maastricht treaty and intervention in Bosnia. Voters can see through the careful equivocations of the prime minister and the leader of the opposition; some are attracted by the Liberal Democrat's clear-cut stands on principle. But that said, Mr Ashdown has not managed to sell any overriding *general* principle that, in the electorate's eyes, would both distinguish his party and dispel the killer belief that it can never win.

Well then, can Labour? A slam-bang open battle for control with the union leaders, with Mr Smith laying his job on the line and yet winning, could solidify the Labour vote. I'll believe that when I see it. A Lib-Lab pact? We are more likely to see the two non-conservative parties cancel one another out, as the government climbs upwards from its post-recession trough.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Welfare cuts versus an increase in taxes

From Mr Harry Shutt.

Your leader of June 1 ("Mr Major's next steps") calls for public debate on where cuts in the welfare state should fall. Yet surely intellectual consistency also demands some discussion as to whether such cuts are preferable to tax increases?

To deny this is to cling to the oft-disproved supply-side myth, revived with such enthusiasm in the 1980s, that tax cutting and deregulation tend to promote sustained economic prosperity. Now that has been exploded yet again, honesty requires us to recognise that, since cutting taxes (or more accurately shifting the burden from the rich to the poor) has not generated the promised economic miracle, there is no justification for not reversing the process.

The obscenity of expecting the less well-off to pay the price of Thatcherite folly – and thus prospectively join the ranks of the 6m or so already on income support – is regularly illustrated in your own columns. Witness the spectacle (highlighted by Lex, "In at the deep end", May 27) of the privatised water industry – having been allowed to levy its own tax on captive consumers and being largely absolved of paying taxes itself for years – pouring its super-profits into overseas investments that are both highly speculative and quite irrelevant to the well-being of our domestic economy.

Is it not an insult to the moral sense as well as the intelligence of the public to suggest that a nation which can afford such waste cannot also afford the welfare state?

Harry Shutt,
19 Tennyson Close,
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Shareholders not much in evidence

From Mr John Reeve.

Sir, As chairman of a modest public company, County of Kent Developments, I have just presided over my third annual general meeting. As on the two previous occasions, in spite of there being some 300 on the register and their being properly notified, not one shareholder (save the directors) attended the meeting.

This may indicate absolute confidence in the board of directors or the total despair on the part of the shareholders.

However, the question I pose runs as follows: is three consecutive agms of a public company without a shareholder in attendance (save the directors) a record or are there others among your readers better qualified for inclusion in the Guinness Book of Records?

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Why Lamont's removal from office was just

From J R L Cuningham.

Sir, In his article, "Hounded out by fiction and foes" (June 4), Bill Robinson asked: "Why did we keep on reading that the City had lost all confidence in the chancellor?" and then basically fails to provide an answer except by reference to Mr Lamont's numerous indiscretions in his private life.

The real reason why the financial community "gave up" on Mr Lamont, and is close to doing the same on the prime minister, is that both men, having pursued an economic policy which was clearly not in the country's best interests, were only forced to change tack following the UK's brutal ejection from the exchange rate mechanism.

Like the Bourbons they seemed incapable of learning from their mistakes and, if Mr Lamont's removal from office was the result of pressure from the media, then the reporters concerned have done the country a considerable service.

J R L Cuningham,
chairman,
Investment Research of Cambridge,
28 Panton Street, Cambridge

From Mr Peter Marks.

Sir, In his defence of Mr Norman Lamont, Bill Robinson writes that "his senior colleagues agreed that the ERM debacle was not his fault", and that other countries "have not found it necessary to change their finance ministers along with their ERM parity".

The difference from other countries is that, shortly before the exchange rate was floated, quite a few billions of Britain's foreign exchange resources were spent on buying sterling at a rate some 10 to 15 per cent higher than that which has ruled in the market ever since. Responsibility for exchange rate policy, including intervention, rests with the Treasury and the Bank of England, chiefly the former. It was for being the person responsible, at least formally, for incurring such huge losses that Mr Lamont had to go. If in some way it was not actually "his fault", whose was it? In a democracy we should be allowed to know.

Peter Marks,
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Not so good with VAT numbers

From Dr Gordon Wilkinson.

Sir, Charles Batchelor ("Negotiating the barriers", June 1) rightly refers to the difficulties and burdensome administration of new rules on value-added tax, especially the completion of statistical trading reports. One might be impressed by the apparent sophistication of Customs & Excise computer systems to process such volumes of trade data.

However, we find it astonishing that VAT offices are able to confirm whether a VAT number applies to a particular European company, but, given the names, are unable to advise the correct VAT number for the occasional firms that our time-consuming and expensive mail, fax and phone communications have been unsuccessful in obtaining.

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Standards on the decline

From M Wolstencroft.

Sir, I was horrified to note that the European Commission is likely to legislate against the British system of hallmarks in order to harmonise downwards to a lesser standard ("EC looks set to ban precious metal symbols", June 3) and hope that this will be resisted at all costs. What is next to go in the new State of Europe, perhaps the three-pin plug? After all, it, too, constitutes a higher and safer standard that that used in continental Europe.

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Progress continues on plans for a nuclear waste repository

From Mr Michael Folger.

Sir, Bronwen Maddox ("Storing up long-term doubts", June 4) suggests that this company's plans for a nuclear waste repository are "stalled". In fact we are making steady progress.

In April, Cumbria County Council granted planning permission for an extensive array of monitoring and geotechnical boreholes at our Longlands Farm site near Sellafield. Once we have initial results from that drilling, early next year, we will be able to finalise a planning application for our proposed rock characterisation facility, or "rock laboratory".

The Radioactive Waste Management Advisory Committee, in its latest annual report, reiterated its welcome for our plans for that underground facility. As we stated last autumn, work in the rock laboratory will be essential to develop the "unequivocal evidence" on hydrogeological conditions to which the committee's report has referred and which we and the safety regulators will need before waste disposal could begin.

Neither are repository costs "unknown". The NAO itself has reported current best estimates of undiscounted lifetime costs in the region of £3bn. Tighter estimating will follow as improving knowledge of the site allows us to undertake more detailed engineering studies – keeping within known technology and aiming at minimum cost. While the cost of underground disposal is high in absolute terms it is small in relation to the quantity of nuclear electricity generated. Thus, a £3bn cost would be equivalent, even in the crudest undiscounted terms, to only about a tenth of a penny per kWh of nuclear power generated since the 1950s and up to 2030.

Inevitably, there are uncertainties over precise timing of our programme – as our published plans acknowledge. These reflect the scientific realities of the step-by-step approach necessary for a confident and cost-effective evaluation of site suitability and also the constraints of the planning system. But, with a flexible strategy and the necessary resources committed on the ground, we are maintaining momentum to make early deep disposal a reality, as government policy requires.

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Victory tasks for González

MR FELIPE González, the Spanish prime minister, has clinched a feat that Britain's Margaret Thatcher failed to achieve and Germany's Helmut Kohl has not yet pulled off. By an unexpectedly clear margin, he has won a fourth term as leader of one of Europe's main industrialised democracies. Additionally, by stemming the tide of losses by Europe's left-wing parties, Mr González has made himself the chief standard-bearer for what is left of European social democracy.

The role brings both burdens and benefits. In opting for four more years under Mr González, but removing his previous absolute majority, the Spanish electorate has shown him less than full-hearted confidence. Voters displayed considerable scepticism about Mr González's Socialist party, weakened above all by corruption allegations. But this seems to have been outweighed by still greater doubts over the prospect of rule by the inexperienced conservative challenger, Mr José Maria Aznar.

The prime minister has the opportunity to turn victory to the cause of placing Spain more firmly in the mainstream of European integration. But he will need to show a sense of realism and urgency that in recent years has often eluded him. The voters clearly expect changes in the Socialist party, which has dispensed an unhealthy degree of influence over the state apparatus. Even more urgently, a new approach is required in economic policy. After registering an average of 4 per cent growth in gross domestic product between 1985 and 1991, Spain is now mired in the European recession, with a 21.7 per cent unemployment rate and a current account deficit around 4 per cent of GDP.

Supply-side economic reforms have been promised as often as they have failed to materialise. Straitened economic circumstances impose new necessities. Mr González should strive to make them virtues. He needs to bring in steps both to improve the flexibility of the country's notoriously rigid labour markets, and to restructure inefficient public sector industry.

Measures to promote job creation must be combined with renewed efforts to hold down inflation and maintain the improvement in Spanish competitiveness gained in three peseta devaluations since September. Spain's inflation rate, 1.2 percentage points above the EC average, is still too high.

The loss of the Socialists' absolute majority may help Mr González rally the consensus needed for unpopular solutions. Mr González for the first time will have to come to terms with minority parties. This raises the need for delicate compromise. But, in areas such as breaking up centralised wage bargaining, this may enable the prime minister to wriggle free from his party's shackles. Mr González faces an uphill task, but it is a fight worth conducting. On Sunday's evidence, the Spanish people are willing to give him the benefit of the doubt. He now needs to show he has the mettle for the struggle.

Pay-off punch

POSTEL, the UK's biggest pension fund, intends to vote against the re-election of any company director who is on a rolling contract of more than 12 months.

This policy, outlined in a letter to top company chairmen from Mr Alastair Ross Goobey, Postel's chief executive, seems wholly sensible. If there is one piece of common ground in the debate over executive pay, it is that managers should not be rewarded for failure. Yet the three-year rolling contract, fast becoming the standard in British industry, ensures just as big a pay-off for a poor manager as for a good one. If Postel's initiative helps stamp out the three-year rolling contract, the fund will have done a service both to the pensioners it represents and to the companies in which it invests.

Mr Ross Goobey's move is welcome, however, as much for what it signals as for what it contains. Typically, the debate over executive compensation is unproductive because complaints over the *substance* of pay decisions are met by a defence of the *process* used to reach them. The more intense the complaints over substance, the more agonisingly refined the process, and so on, in an endless dialogue of the deaf.

If an impeccable process delivers unacceptable results – as, too often, has been the case in big British companies – the problem lies in the connection with the outside world. Non-executive directors are supposed to act as proxies for shareholders in the pay-setting process. If they fail to do so, it is partly because they do not hear a clear message of concern from the shareholders they represent.

Postel is at last sending such a message. Though it is leaving the absolute level of top salaries to the discretion of companies' remuneration committees, it clearly wants the issue to be taken seriously. As a self-managed, largely independent fund, it is in an unusually strong position to make its views heard.

Many other institutional investors are part of companies with their own chairmen, chief executives, remuneration committees, and share options – a situation which limits their freedom to comment on the pay packets of their peers.

There is one other reason for welcoming Postel's move. The corporate governance of British industry will greatly benefit from a willingness by institutional investors to use their votes to back up their opinions. By promising to use Postel's voting power in this fashion, Mr Ross Goobey has set an encouraging example. Could he turn next, please, to voting down underperforming boards of directors?

Weak beer

EVER SINCE Britain's ill-fated Beer Orders were introduced four years ago, beer drinkers have had to swallow annual price rises well above inflation. Now they are to get less for their money as well. But while the government is to blame for the Beer Orders fiasco, this time it is up to the brewing industry to account for its actions.

In recent weeks, several large brewers have quietly decided to lower the alcohol content of their products. Bass, the biggest, is reducing the strength of almost a third of its brands by as much as one-seventh, while raising wholesale prices by 3.6 per cent. That is well ahead of the headline inflation rate in the year to April.

Producers are fully entitled to adjust product formulations and prices. However, when changes affect something which is as basic to a product's character as alcohol is to beer, one would expect them to keep consumers properly informed. In this case, no such effort was made, and the way in which the changes have been made encourages the disagreeable idea that the brewers have something to hide.

The ostensible pretext for their decisions is the introduction this month of a new system of levying excise duty on beer. Under the old method, which dated from Victorian times, duty was assessed prior to fermentation. In future, it will be paid on the final product. The switch was prompted by complaints from the industry that the old system was cumbersome and inequitable, and by the need to align UK practice with the rest of the European Community.

The new system was developed by Customs & Excise after three years of consultation with the brewers and modelled on their proposals. Customs & Excise says the main elements were communicated to them a year ago, and the duty rate was fixed in early March. Yet the industry has suddenly decided that the new system is discriminatory. Last week, on the day it came into effect, the Brewers' Society complained that had it applied during the previous 12 months, it would have yielded £64m, or 3 per cent, more in duty than the old system. That, the society claimed, breached government pledges that the change would be fiscally neutral.

The industry has yet to explain clearly why it has waited so long to expose this alleged discrepancy. The only reason offered is that it did not have until recently all the information needed to evaluate the new system. That, however, is vigorously denied by Customs & Excise and hardly carries conviction, given the industry's close involvement in the exercise from the outset. It also raises questions about the brewers' ability to do their sums.

Wherever the truth lies, the brewers appear determined that the consumer will be made to pay, through higher prices and furtive product changes which they have made no serious effort to communicate to the public – let alone defend. This kind of attitude is associated with old-style monopoly nationalised industries, not with a modern competitive business. If, in these circumstances, beer consumption continues to decline, the brewers have only themselves to blame.

Felipe González may have to seek partners in his bid to revive Spain's ailing economy, says **Peter Bruce**

The ball's back in his court

There is surprise on a lot of Spanish faces as the scale of Prime Minister Felipe González's election victory on Sunday sinks in. To have won 159 seats in parliament, given the combination of economic recession and political attack he was facing, is a mighty achievement. Nobody came anywhere near predicting it.

Yesterday, the political analysts and experts were being unusually cautious. Having predicted a closer race and possible defeat for the prime minister, few were brave enough to guess what he might do with his fourth successive term in office. The best lead came from the foreign exchange markets, where the peseta strengthened sharply against the D-Mark yesterday morning, and closed at Pta76.84, from a previous Pta78.27.

The markets reacted warmly because of the widespread assumption that the Socialists, with enough seats to form a stable coalition or minority government, would not rush into a series of interest rate cuts. Had the opposition People's Party won, the markets would have expected a quick dash towards lower rates. But the rise in the peseta – devalued for the third time in nine months just three weeks ago – also carries an inherent danger. Unless the government take tough economic action to tackle the country's chronic unemployment, deepening recession and investment drought, the peseta could again come under pressure.

Aware of the potentially delicate position of the peseta, and of the loss of his overall majority in parliament, held since 1982, Mr González will try to move swiftly on both the economic and political fronts.

Despite losing 26 seats, the Socialists are still 18 clear of the PP, headed by Mr José Maria Aznar, the conservative challenger who increased his share of the vote by 10 per cent. With more people – 9.08m – voting Socialist this time than in 1986 or 1989, Spaniards have made it clear they are comfortable swimming against the political tide in Europe, for the time being, to the left of centre.

More accurately, they still have confidence in Mr Gonález as their leader. His victory should make it easier for him to bring the powerful left wing of the Socialist party to heel at a special party congress expected later this year. Party officials have prevented Mr González from implementing tough fiscal policies and labour reforms since 1989. As economic and social policy choices have become starker over the past four years, and as the economy has deteriorated, he needs a united party more than ever.

The recession has narrowed his options. Tax revenues are down and any serious cuts in infrastructure spending would be unpopular. Not surprisingly, both Mr González and Mr Aznar agreed, separately, during their campaigns, that the only way to promote growth would be to negotiate a *pacto social* – a social pact – between the trade unions and employers to hold down wage increases and remove rigidities from the labour market. Nobody knows quite how such a pact would work, and the only man who has tried (and failed) to implement one, the finance minister, Mr Carlos Solchaga, may leave the government.

Mr González is convinced that if it can stem wages growth, running at an average 7 per cent this year, the downward trend in interest rates can be accelerated as inflation, at an annual rate of 4.6 per cent, is brought more firmly under control. To achieve wage moderation, however, he must bring two large trade unions, hostile to the conservative thrust of his economic policies, together with the employers federation, which campaigned feverishly for his defeat after the party watered down a controversial anti-strike law drafted by the government.

Both the socialist UGT and the communist Comisiones Obreras national unions are interested in recovering the political influence they had before Mr González began moving sharply to the right in the mid-1980s, so they may support him. Mr González is likely to attempt a rapprochement at least with the UGT, which split from the Socialist party in the late 1980s.

Engineering a social pact will not be easy. To have any chance of meeting the Maastricht treaty's economic convergence targets – which Mr González is determined to do – the labour market would require reforms to make it easier to hire and fire workers, something the unions would oppose. But there would be trade-offs in the form of apprenticeships and training. On the employers' side, the prime minister may try to persuade them to make specific commitments to plough back profits into their businesses. In return, the government could perhaps offer tax concessions.

Discussions involving unions and employers might also make it easier for the government to begin running down and even closing loss-making public sector companies and, perhaps, privatising those which could be profitable.

Without a pact, Mr González' fourth term threatens to become as bereft of achievement as his third. The two biggest drains on the public purse continue to be unemployment benefits and health care, neither of which can be contained – beyond trimming waste – without serious political damage. In essence, the pact would be a way of diverting effort from the unsolvable to the solvable.

Mr González has a breathing space. The country does not expect a rapid escape from the recession or from high unemployment – 3.3m people are officially out of work – and it has been primed during the campaign for the tough austerity programme necessary for recovery.

Such a programme, plus the pact, and a tough 1994 budget, are all politically feasible. Sunday night changed Spanish politics not simply because the vote ended the country's tradition of outright parliamentary majorities but because Mr González himself says he has changed. "I have understood the message of the people," he said. That message is to get off his pedestal and compromise.

He could do this by bringing fresh faces into the government, along with non-party members. For many Spaniards this is an alluring prospect, promising a more open administration. By pinpointing the areas of waste, inefficiency and illegal political financing, Mr Aznar may have done Mr Gonález a favour during the campaign.

But as he begins to manoeuvre the unions and employers to his negotiating table, Mr Gonález must also decide whether the 159 seats the Socialists have won are enough to allow him to govern as a minority, making long-term pacts with the conservative ruling CiU in Catalonia and perhaps the PNV in the Basque country. Or he could form a coalition government with one or both of them.

No doubt he would wish to go it alone, but in the CiU at least, there is a debate over whether to enter national government. Mr Miguel Roca, parliamentary leader of the CiU, is close to the Socialists and has ministerial ambitions, but the Catalan leader, Mr Jordi Pujol, worries that helping the Socialists to govern might cost him support during Catalan elections, which the Socialists also contest.

Given the economic obstacles the next government will have to overcome, the PP will want to see life made as difficult as possible. A proliferation of regional parties in the national government would work in its favour because if anything should go wrong, they would share the blame. The PP believed it would win the election and in many cases lost close races to small conservative regional parties. Somehow, the PP has to find an accommodation with the scattered regional right or seek to capture the regional vote. Both would take time.

The result was a bitter blow for the conservatives. The PP is a vituperative party and conceivably could blame Mr Aznar. But that would be reckless. He has raised the PP's game to the point where Spain, for the first time in more than a decade, has a worthy opposition.

Mr Aznar repelled some voters with his arrogant style but in conceding defeat on Sunday he was gracious and generous, finally revealing two impressive qualities when it was too late. The next time, provided he does not hide his humanity away again, he will be a real threat to Mr González.

Until then, Mr González has been given an unprecedented opportunity to tackle the weaknesses in economic policy and in his relationship with his party that were exposed during his third term. The last Socialist leader in the European Community, he will be keen to prove that the key to growth does not lie on only one side of the political spectrum. He faces some big tests, but he has more than 9m Spaniards rooting for him.

Unemployment: a letter to Mr Delors

PERSONAL VIEW

You are right – European unemployment is a scandal. At 10 per cent, it is especially high just now because of the economic downturn. But the real scandal is the average level of unemployment in the European Community over the last five years – no less than 9 per cent of all workers.

Since unemployment differs so much from one OECD country to another, your strategy of reform can draw on this experience. Three main features explain the varying levels of unemployment: how unemployed people are treated; how young people are trained; and how wages are determined.

In most European Community countries unemployed people get money too easily and are give too little help. Generally unemployment benefits are available for a substantial period, often indefinitely. At the same time far too little is done to help people to become employable. Typically, only one in 10 of the unemployed receives training, and such training is often of poor quality.

This deadly combination explains our long-term unemployment – more than a third of Europe's unemployed have been out of work for over a year. This long-term unemployment does nothing to control inflation, since those concerned are no longer of interest to employers and are thus an ineffective supply of labour. It is thus a total economic waste and dreadful fiscal burden.

So we need a fresh approach, tailored to preventing long-term unemployment. This means spending money on active labour market measures in order to save money on benefits and lost taxes. It means a personnel placement officer for each unemployed person. It means more and better training. And in the last resort it means resources to buy jobs for hard-to-place workers.

The way to deal with long-term unemployment is to prevent it. Once people are long-term unemployed it is very difficult to help them in any way that is cost-effective. Indeed, misguided attempts to do so account for many of the failures of active intervention.

Instead, we need high-quality programmes for people who have been unemployed between six and 12 months. Once enough good programmes are in place, the duration of benefits can be cut to a year. Income maintenance beyond that point would then be conditional on work or training.

Most unemployed people have lost a previous job through normal economic change, as some industries decline and others rise. They should be treated as an important resource for the industries of the future. We should no longer let them slide into self-distrust.

The Community needs a fresh approach tailored to preventing long-term unemployment

Next, there is the problem of mismatch. The relative demand for skilled workers has been reduced by technological change and by low wages in the newly industrialised countries. But the pattern of skills in the European workforce has not adjusted adequately. To an extent the problem will correct itself, since the relative shortage of skilled labour has increased wage differentials and thus the incentive to acquire skill. But wages are not fully flexible and this generates an inefficient level of unemployment, requiring public intervention and public expenditure.

Thus the 1990s have to be an era of educational expansion, as the 1960s were, but with a heavy focus on vocational education for the less able young people. One reason for low unemployment in Germany is its near universal system of skill training. Other European countries need to guarantee some training to every young person.

Finally, Europe is the continent of trade unions. In this context, decentralised bargaining simply leads to wage leap-frogging as soon as unemployment is reduced. Wage restraint can only be achieved through higher unemployment or through employer solidarity and social consensus about wages.

Tackling unemployment means tackling these three issues. There are many possible distractions – above all, the fallacy that, due to technical progress, it is ever more difficult to provide jobs. If that were so, we should nearly all be unemployed by now. There is no lump-of-output to be produced. Technology makes possible a better life. So there is no advantage in artificial inducements to early retirement or restricted hours of work.

Unless we treat people as Europe's main resource, we cannot hope to return to full employment. But if we do so, we can at least guarantee everyone a job within one year. Why not make that a European goal for the decade?

Richard Layard

The author is director of the Centre for Economic Performance at London School of Economics and co-author of Unemployment, Macroeconomic Policy and the Labour Market (Oxford University Press)

OBSERVER

Showing off the roller

■ When Britain's Princess Diana acquired her German-built Mercedes sports car there was such a fuss that she was forced to hand it back and trade down to a Ford. But Japan's new royal couple does not suffer the same insecurities and the word is that they will be flaunting the palace Roller for this week's wedding.

Although there could always be a last-minute hitch, the newlyweds plan to ride through Tokyo in a £160,000 Rolls-Royce Corniche IV. Given that Japanese car makers are trying to break in to the luxury end of the market and Rolls-Royce sales in Japan took a dive last year, it would seem a heaven-sent public relations opportunity for the UK car maker.

When Miss Masako Owada, Japan's princess to be, was shown riding a Toyota Corolla to work in January, sales of the Japanese model soared. But even in its current straitened circumstances, Rolls-Royce shows no inclination to publicise its coup. "It's a strictly private affair," purred the lady at RR's Crewe headquarters.

Slow adders

■ Much consternation among the "Big 6" UK accounting firms yesterday over delays in the production of the annual fee income figures from one of their number, Ernst & Young.

Bitter rumours between all the firms abound each year over the undiluted quantity of creative accounting that goes into their preparation. This year they had agreed to release them simultaneously to the press and each other at 11am.

All churned off the fax as planned except for Ernst & Young's, which did not appear till nearly 1pm. The firm vigorously denied that it waited to see its nearest competitor before preparing a figure, even though its results were just a sliver ahead of Andersen. All necessary manipulation was done blind several weeks ago, it seems, just like its competitors.

Loosening up

■ When it comes to winning public accolades there is not a lot to choose between South Africa's two chief constitutional adversaries – Roelf Meyer from the government and Cyril Ramaphosa from the African National Congress. Last week they received two honours jointly, flew to America together, and in the words of a local columnist "grew so close that they could wear each other's smiles".

When it comes to humour ANC secretary general Ramaphosa has had an edge over the Afrikaner constitutional minister up to now. However, Meyer is learning fast from his opposite number. When the two men jointly accepted their "man of the year award" from the ANC newspaper, the New Nation, last week, Meyer recalled that when he attended a lunch after the president's momentous 1990 speech unbanning the ANC, the wine on the luncheon table was from the estate "Allesverloren" (All is lost). At the New Nation banquet the wine was "Buitenverwachting" (Waiting outside) – fair comment on the political situation.

'I think John Major's doing a great job – if you like that sort of thing'

Call di Tella

■ Argentina's charm offensive against the Falkland Islands gathers pace. Guido di Tella, the urbane Argentine foreign minister is to be guest of honour – the less generous might say sitting target – on one of the BBC World Service's more sensitive shows, Calling the Falklands.

The one-hour programme will go out live on June 18 and the Beeb promises that neither questions nor responses will be edited. Whose idea was it? "That's a bit hazy," says a member of the BBC production staff. But Di Tella clearly has an agenda; he recently sent the Falklanders a letter telling them how nice the Argentines really are.

On that occasion they politely told him to sling his hook. On air, they may have some fruitier comments. But Di Tella, a former Oxford don, is cooler than a cucumber.

Chasing Birgit

■ The Treuhand, the agency which has the thankless job of privatising eastern Germany's industry, may soon get a taste of its own medicine.

After selling off more than 12,000 companies since it was set up in late 1990, and closing down a few thousand, many of its own staff are now looking elsewhere for new jobs.

With only 1,000 companies left on the books, the Treuhand intends to close down its New York and Tokyo office this autumn, and the agency itself will be wound up by the end of next year.

The Berlin-based investment relations department, which looks after potential foreign investors, will be cut back from 15 to 10 by the end of this month. But the big question is the future of Ms Birgit Breuel, the agency's 55-year-old president.

She has been been mentioned as a possible successor to Sir William Ryrie, the British civil servant who has been running the International Finance Corporation, the private-sector arm of the World Bank, for the last nine years. Ryrie has an open-ended contract but he turns 65 in November, the normal retirement age for World Bank types. It is understood that she has already been invited to join the IFC board.

Others say she might end up in the Chancellery in Bonn. She might even return to politics – she was minister of finance in Lower Saxony until joining the Treuhand in October 1990. Whatever the outcome, it is highly unlikely that Ms Breuel will join Jacques Attali's EBRD.

Be prepared

■ The American Institute of Certified Public Accountants has chosen an odd spot for its national conference on divorce, which covers such subjects as how to get the most out of your next of kin when the marriage turns sour.

Until now Las Vegas has been better known as the place for instant marriages, rather than shotgun divorces.

FINANCIAL TIMES
Tuesday June 8 1993

Thatcher presses argument for UK referendum on Maastricht

By Ralph Atkins

BARONESS Thatcher reopened deep wounds in the British Tory party over Europe yesterday by launching in the House of Lords a fresh campaign to force a referendum on the Maastricht treaty.

The former prime minister said she would never have signed the treaty, and told Mr John Major, the UK prime minister, that Britain had more to lose than any other European Community country under it. Without a referendum, the government would "betray" the people's trust in the UK's parliamentary system.

Lady Thatcher warned that Maastricht would turn the British and other EC parliaments into "little more than an agency" of the European Commission and Council because of the "massive extension" of powers to Brussels.

Her calculated remarks will serve as a rallying point for Euro-sceptic lords, adding further to the sense of disarray in Mr Major's Conservative party.

Lady Thatcher's outburst revived tensions that precipitated her downfall as prime minister. Lord Howe, the former foreign secretary – standing just behind her – warned that Euro-sceptics had moved "into a position which now, alas, is approaching deep hostility to the essence of the Community itself."

Most Euro-sceptic MPs still believe the Lords' overwhelming pro-European slant will allow the Maastricht bill a relatively smooth passage.

Lady Thatcher, heard in near-silence in a crowded chamber, said Maastricht was intended explicitly to pave the way to a European union. She added: "I suggest we don't want to go any further on that train."

For the government, Lord Wakeham, leader of the Lords, made a deliberate swipe at the former prime minister, saying that Maastricht was "less far-reaching" than the Single European Act – signed by Lady Thatcher.

Maastricht sought to make EC institutions more effective, Lord Wakeham said, and allowed Britain "to make further progress towards the kind of decentralised, open community that we want".

Lady Thatcher objected that Maastricht went "much, much wider" than the Single European Act, extending the powers of the Commission from 11 to 20 areas of government and providing 111 new occasions when decisions can be by qualified majority voting. It would be "disgraceful" to block a British referendum.

She attacked the Commission for reneging on assurances that the extension of qualified majority voting needed to create a single market would not interfere with nation states' freedom over fiscal policy, the free movement of people and employees' rights and interests.

She welcomed the government's decision to refer the working time directive to the European Court on the ground that it had been enacted wrongly – and against Britain's wishes – under a qualified majority voting.

But she said the court's judges were biased towards an integrated European Community and threatened to undermine the principle of the rule of law on which British democracy was based.

Mediation fails in Virgin 'dirty tricks' claim on BA

By Andrew Fisher and Andrew Baxter

THE ACRIMONIOUS "dirty tricks" dispute between Virgin Atlantic and British Airways looked set last night to be decided in court after the collapse of a mediation attempt by the Civil Aviation Authority.

BA claimed that the main obstacle to a settlement was Virgin's insistence on a payment of not less than £9m ($13.9m) in compensation. It suggested that the matter should be settled by arbitration.

Mr Richard Branson, chairman of Virgin, said it now seemed inevitable that the matter could only be decided in court. "Once again, at the last moment, BA have decided to move the goalposts."

The collapse of talks ends three weeks of meetings held by Mr Christopher Chataway, chairman of the CAA, with both airlines to try to resolve the dispute. The CAA said it was disappointed that a deal had proved impossible in a dispute it considered to be "potentially harmful to British aviation".

BA denied reports that it was ready to pay £9m to settle the claims by Virgin. It said it had made clear at the start of the discussions initiated by the CAA that the proposed settlement was worth nothing like that figure and that BA's board had reaffirmed its stance on Friday.

BA suggested that all Virgin's claims should be submitted to an arbitrator, except for £5m involved in a long-running aircraft maintenance dispute which is already in arbitration.

Mr Robert Ayling, BA's group managing director, said the airline had always declared its willingness to pay any legitimate claims that Virgin may have. "We hope Virgin will accept this simple, direct and obviously fair way of determining the legitimacy and worth, if any, of its claims."

In response, Mr Branson said Virgin had expressly entered negotiations on the basis that BA pay £9m compensation for the "dirty tricks" campaign to lure passengers away by using Virgin's computer data. "Much hard work and effort has been expended by the CAA and Virgin in attempting to agree the outstanding issues. Just at the point of agreeing those issues, BA – without any reason whatsoever – have once again withdrawn their offer of settlement."

Last night, Virgin said it had originally asked for £13m but had agreed on £9m as a basis for negotiations if BA dropped the "gagging clause" which would have stopped Virgin from raising the matter again. Virgin maintained that the £9m compensation had been accepted by both sides in the latest talks.

WHO asks for $2.5bn a year to stop Aids spreading

By Paul Abrahams in Berlin

THE WORLD Health Organisation yesterday appealed for $2.5bn to be spent each year in developing countries to prevent the transmission of HIV, the virus that causes Aids.

The organisation argued that the programme could halve the number of new adult infections during the rest of the decade from nearly 20m to 10m.

"It would be an investment on which the returns could be huge," said Dr Michael Merson, director of WHO's global programme on Aids. "WHO estimates it could save nearly $90m in direct and indirect costs by the turn of the century."

He said the biggest increase in Aids infections over the last 12 months has been in Latin America, and south and south-east Asia. In each region there are at least 1.5m infections.

The growth of infection in south Asia and south-east Asia has been explosive, said Dr Merson. In Thailand, for example, the number of infected people had increased from little more than 50,000 in 1990 to 450,000 by late last year.

The programme would prevent more than 4m infections in Africa, the same number in Asia and about 1m in Latin America.

"The world can find this money if it wants to. It would hardly buy a single can of Coke for every person in the world," said Dr Merson. He argued that funds could come not only from the first world but also from developing nations.

"I appeal to world leaders to help mobilise resources from national budgets, non-governmental organisations and the private sector. "We can afford Aids prevention. We cannot afford to neglect it," he said.

The programme of basic measures would include the promotion and distribution of condoms in the general population; the treatment of sexually transmitted diseases because of their role in the spread of HIV; Aids information and education; promotion of condoms among prostitutes and clients; maintenance of a safe blood supply for transfusions; and needle-exchange programmes.

"The initiative would provide a significant return in financial terms but above all an incalculable yield in diminished human suffering," said Dr Merson.

More than 13m adolescents and adults have been infected by HIV, according to Dr Merson.

Worldwide, 75 per cent of infections were through unprotected sexual intercourse, Dr Merson added. Women accounted for five out of every 11 newly infected adults.

Meanwhile Dr Anthony Fauci of the US-based National Institute of Allergy and Infectious Diseases said new data demonstrated the need for early pharmaceutical intervention in HIV-positive patients who have not yet developed symptoms.

Brussels warning on recovery

Continued from Page 1

EC competitors, but not one EC economy is likely to register an impressive performance, said Mr Christophersen.

During the meeting, Mr Christophersen confirmed that the Commission's new internal forecasts estimate the EC economy in general will contract by 0.3 per cent, compared with 0.8 per cent growth forecast earlier this year.

The commissioner said next year the EC is likely to grow between 1 and 2 per cent – far less than the 3 per cent seen as necessary to stop job losses and create new employment.

Mr Christophersen called on member states to stimulate growth, citing the recent tax reform and job-creating measures by the Danish and French governments respectively.

But he acknowledged that members states' public deficits – which could reach an EC average of 6 per cent of GNP this year – are too high to leave much room for budgetary manoeuvre.

Mr Padraig Flynn, EC social affairs commissioner, meanwhile insisted the struggle against growing structural unemployment would only make headway if it was tackled with the vigour seen in Europe's efforts to set up the single market.

"The single market was a success because it had an agenda and a timetable," Mr Flynn said before yesterday's meeting.

Mr Flynn and his staff were disappointed with the inconclusive debate on the Commission's framework plan to tackle the jobs crisis when EC employment ministers met in Luxembourg last week, and are still pushing hard for it to be considered at the June 21-22 summit in Copenhagen.

The commissioner said structural changes in the plan – including sharing out jobs and an easing of the tax and social security burden on employment – needed to be broached EC-wide.

Sweden urges sale of loss-laden banks to foreign interests

By Robert Peston and Hugh Carnegy in Stockholm

SWEDEN yesterday urged the chairmen of the world's biggest banks to consider buying into the country's banking sector.

"If you wish to buy a bank or part of one, don't hesitate to do so," Mrs Anne Wibble, Sweden's finance minister, told a meeting of the International Monetary Conference, an annual gathering of the chairmen of the world's 100 biggest banks.

None of Sweden's big banks is owned or controlled by overseas institutions. Before the election of the current centre-right government, there was an effective ban on foreign ownership of banks.

But Swedish banks have suffered huge loan losses over the past couple of years. Two of the big banks are already controlled by the government and a further three, including Skandinaviska Enskilda Banken, have applied for government support.

Mrs Wibble said foreign ownership of Sweden's banks was preferable to government ownership and she would not oppose the sale of one of the country's biggest banks to a foreign institution.

Mrs Wibble said a decision on the scope and form of any public support for SE Banken, the country's biggest, would probably not be taken until the autumn. The government said earlier this year that it agreed in principle to help the bank, which had losses in 1992 of SKr5.6bn ($784m) and has non-performing loans totalling almost SKr25bn.

SE Banken has said it wanted to conclude a deal with the government by the end of this month, but Mrs Wibble said it would take longer to study the bank's needs. The government is apparently adopting a tough stance, anxious not to be accused of giving SE Banken soft terms.

The first privatisation candidate is likely to be Gotabank, which has used up most of a state guarantee worth SKr10bn following losses of SKr2.4bn last year.

Its healthy assets carry a value of around SKr50bn, but it has non-performing loans of SKr40bn, most of which the government is likely to dump into a separate "bad bank" before privatisation early next year.

Poll results add to pressure for Italian electoral reform

Continued from Page 1

necessary majority on Sunday, the final picture of the new political map will not emerge until after the second round on June 20. But with separate votes cast for the mayors and party municipal lists, the League's triumph is clear.

It has become the first party to obtain 40 per cent of the vote in Milan and rally 37 per cent for its mayoral candidate Mr Marco Formentini. Mr Bossi had staked out Milan's electorate as the symbol of League power, and with the city at the epicentre of the corruption scandals, his and the party's credibility depended upon victory.

A striking element has been the alliances formed for these polls. The most successful were those where the "left" joined the Greens and the Network.

THE LEX COLUMN

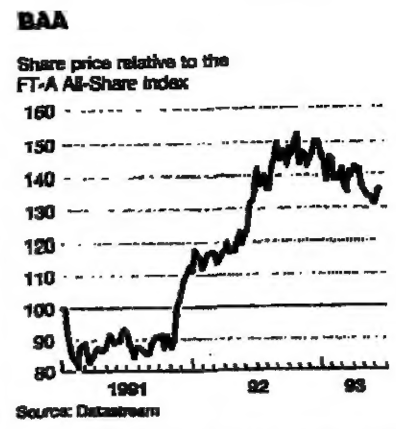
The coal dust settles

Judging by the hardline noises coming from the electricity generators, British Coal's "reprieved" pits are not long for this world. In February, there was much talk of the government forcing the generators to take an additional 65m tonnes of coal over five years. National Power and PowerGen offered to take 40m tonnes. Now it seems a only a few million tonnes may be bought this year and next, and the pits will close.

Since a basic five-year coal deal has been signed, much of the uncertainty about future coal prices has been removed. That deal requires the generators to take less coal than hitherto, so they can start to run down stocks and release cash. Similarly, the very strong underlying profits and cash flow of the business has partly been masked by heavy provisions and a high capital spend. The generators now have a secure financial cushion which will allow them to release profits, cash and dividends over the next three years. Dividend increases of 15 per cent compound will doubtless tempt investors offered leaner pickings elsewhere, especially if voluntary market share reductions mean that the generators avoid an appointment with the UK Monopolies and Mergers Commission.

Yet while there is still plenty of air to come out of the tyres further down the profit and loss account, boosting turnover will remain a problem. National Power intends to spend £1bn overseas to find new revenues. PowerGen is sniffier about the rates of return available. The success or otherwise of diversification may finally mark a point of difference between the two companies.

FT-SE Index: 2844.8 (+14.9)



BAA

Despite BAA's 49 per cent profits increase, it is hard to argue that its shares are undervalued. Viewed as a retailer, BAA already trades on a similar forward multiple to Marks and Spencer. As a property company, it is on much the same discount to net assets as MEPC. As a loosely-regulated monopoly, BAA yields considerably less than the electricity supply companies. Stripped of exceptional charges, its underlying profits increase last year was just 7 per cent. Since BAA's earnings are likely to grow more slowly than the market average over the next two years, it is easy to understand its recent share price softness.

Still, it would be unwise to dismiss BAA's attractions altogether. Last year, the company made impressive productivity gains – largely by shrinking its workforce by 19 per cent. Expanding its retailing activities is also proving lucrative given the marginal costs involved, although its reliance on duty free sales is a concern.

Any company making £324m of operating profits from £952m of revenue must be on to a good thing. That, in turn, suggests the CAA, BAA's regulator, has been too soft despite its formula for airport charges of RPI minus 8 percentage points. In three years' time, BAA will be even better off. It will be able to charge RPI minus 1 percentage point. Calls for a tighter regime will then be tempered by the need for BAA to fund Heathrow's fifth terminal. Shareholders would doubly rue a more rigorous regulator if BAA had to ask them for the cash.

Klöckner-Werke

The rescue plan agreed by Klöckner-Werke's creditors yesterday will doubtless come as a great relief to the company and its workforce in Bremen. But what is good for the company is not necessarily so for the broader European industry. Klöckner is closing a blast furnace yet its crude steel capacity will be cut by only 20 per cent and its hot-rolled output by a mere 12 per cent. Cancellation of 60 per cent of its debts effectively gives it a substantial subsidy from German banks into the bargain.

It may be tempting to regard such a solution as sufficient, since European steel prices have been rising this year while production is down. But that has been possible only because of voluntary restraint by west European producers while those in east Europe have taken fright at the threat of protection. With the German recession deepening, there is not much chance of demand reviving this year. When it eventually does, there is a strong chance that the battles for market share will begin all over again.

Supporters of the Klöckner solution argue that it is preferable to bankruptcy, which would have allowed its assets to be sold off on the cheap – creating a cost advantage to the buyer. There are echoes of this in the present scheme, though. Klöckner is talking of writing down the value of its Bremen mill and selling a 50 per cent stake in it. Thyssen and Krupp-Hoesch have already expressed an interest. If the German industry can be revitalised in this way, subsidised producers in Spain and Italy will be more determined to hold their ground.

Henderson

If only Henderson Administration could reproduce such impeccable timing on behalf of its clients. The acquisition of Touche Remnant looks well-judged given the rise in UK equities since the deal was struck in the autumn, and the dwindling returns on cash. With annual cost savings running at around £6m – and no sign of damage to Touche's business – Henderson is right to be pleased with the marriage so far. The acquisition of Touche's clients, though, cannot disguise the fact that its own pension fund division is losing business.

The confidence of big pension funds will only be restored by a marked improvement in investment performance. Touche's talent and other new faces recruited this year should make a difference. Henderson's investment returns are already better than in the dark days of the late 1980s, although some way off the pace set by Phillips & Drew and Schroder. Rationalising and relaunching the stable of unit trusts this year will also have to be handled well if Henderson is to capture its share of new retail money.

If these hurdles can be overcome and with £28m still in the bank, Henderson might be tempted to buy more earnings. Having weakened its balance sheet by writing off goodwill, another big acquisition would be difficult to swallow. However, the pension fund management business shows every sign of consolidating. There must be a fair chance that others will be emboldened to follow Henderson's example.

World Weather

City		°C	°F
Ajaccio	S	29	84
Algiers	F	25	77
Amsterdam	S	22	72
Athens	S	26	79
Bahrain	S	36	97
Bangkok	R	33	91
Barcelona	S	25	77
Beijing	S	32	90
Beirut	F	24	75
Belfast	F	18	64
Belgrade	F	31	88
Berlin	S	21	70
Bermuda	S	24	75
Bombay	C	33	91
Bordeaux	S	28	82
Boulogne	S	23	73
Brussels	S	23	73
Budapest	C	29	84
Buenos Aires	R	17	62
Cairo	F	29	84
Cape Town	S	18	64
Caracas	F	29	84
Casablanca †	F	22	72
Chicago †	C	16	61
Cologne	S	24	75
Copenhagen	F	17	63
Corfu	S	28	82
Dallas †	F	26	79
Dublin	C	18	64
Dubrovnik	S	27	81
Edinburgh	C	17	63
Faro	F	21	70
Florence	S	31	88
Frankfurt	S	27	81
Geneva	S	27	81
Gibraltar	S	23	73
Glasgow	C	15	59
Helsinki	F	17	63
Hong Kong	F	29	84
Innsbruck	F	26	79
Inverness	C	16	61
Islamabad	F	42	108
Istanbul	F	21	70
Jakarta	C	32	90
Johannesburg	S	18	64
Lisbon	S	23	73
London	S	24	75
Los Angeles †	F	14	57
Luxembourg	F	26	79
Madeira	F	20	68
Madrid	F	20	68
Majorca	S	25	77
Malaga	S	23	73
Malta	F	25	77
Manila	C	36	97
Melbourne	C	12	54
Mexico City	F	30	86
Miami †	S	28	82
Milan	S	30	86
Montreal †	F	12	54
Moscow	C	15	59
Munich	F	22	72
Nairobi	F	24	75
Naples	S	29	84
Nassau	F	32	90
New Delhi	S	41	106
New York †	C	17	63
Nice	S	25	77
Nicosia	T	26	79
Oporto	F	22	72
Oslo	F	18	64
Paris	S	26	79
Prague	T	23	73
Reykjavik	R	9	48
Rhodes	S	27	81
Rio de Janeiro	C	29	84
Rome	S	27	81
Salzburg	S	24	75
S'Francisco †	C	14	57
Seoul	S	28	82
Singapore	F	32	90
Stockholm	F	15	59
Strasbourg	F	28	82
Sydney	S	17	63
Taipei	R	28	82
Tangier	F	22	72
Tel Aviv	C	23	73
Tenerife	C	21	70
Tokyo	C	20	68
Toronto †	R	13	55
Tunis	S	26	79
Valencia	F	24	75
Venice	S	27	81
Vienna	F	29	84
Warsaw	S	25	77
Washington †	S	18	64
Zurich	S	27	81

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder